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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors:**

Mr. Gao Yuzhen *(Chairman)*
Mr. Yuan Zhi *(Deputy Chairman and Chief Executive Officer)*
Mr. Hu Liang

**Non-executive Director:**

Mr. Li Shaoran

**Independent Non-executive Directors:**

Mr. Yin Tek Shing, Paul
Mr. Wong Tin Kit
Ms. Zhao Meiran
Mr. Li Xue

## AUDIT COMMITTEE

Mr. Li Xue *(Chairman)*
Mr. Yin Tek Shing, Paul
Mr. Wong Tin Kit
Ms. Zhao Meiran

## REMUNERATION COMMITTEE

Mr. Wong Tin Kit *(Chairman)*
Mr. Yin Tek Shing, Paul
Ms. Zhao Meiran
Mr. Li Xue

## NOMINATION COMMITTEE

Mr. Gao Yuzhen *(Chairman)*
Mr. Yin Tek Shing, Paul
Mr. Wong Tin Kit
Ms. Zhao Meiran
Mr. Li Xue

## COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric

## AUTHORISED REPRESENTATIVES

Mr. Yuan Zhi
Mr. Chan Kwong Leung, Eric

## HONG KONG LEGAL ADVISER

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

## AUDITOR

Ernst & Young

## PRINCIPAL BANKERS

China Citic Bank International Limited
Bank of Communications Co., Ltd.
Hang Seng Bank Limited

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 8, 26th Floor, Tower 1
Admiralty Centre
No. 18 Harcourt Road
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## STOCK CODE

Hong Kong Stock Exchange: 499

## WEBSITE

http://www.qingdaohi.com

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the final results of the Qingdao Holdings International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020 (the "Year").

## OVERVIEW

During the Year, the Group recorded a profit attributable to the owners of the parent of approximately RMB2.4 million (nine months period from 1 April 2019 to 31 December 2019 (the "Previous Period"): RMB11.4 million). The decrease was mainly attributable to (i) the increment of the fair value of investment properties for the year ended 31 December 2020 was lower than that of the nine months ended 31 December 2019; (ii) the increase in legal and professional fees payable; and (iii) the increase in finance expenses relating to the interest expenses payable to the ultimate holding company.

### Leasing of Investment Properties

During the Year, the Group's investment property in Qingdao City known as "22nd Century Plaza", which comprises 13 upperground floors and 136 underground carpark units, was fully leased out. Certain rental concessions however were offered to the tenants of the Group's property in Hong Kong because their business had been adversely affected by the social unrest and outbreak of the COVID-19. Except for this, the overall performance of our investment property portfolio remained stable and generated stable income and cash flow to sustain the Group's continuous development.

### Digital Chinese Calligraphy Education Equipment

During the Year, the Group's business in research and development, production and sales of the digital Chinese calligraphy education equipment also recorded stable growth. This segment recorded a revenue of RMB34.1 million during the Year, as compared to RMB18.7 million for the Previous Period.

Because of the implementation of precautionary measures taken by the government of the People's Republic of China (the "PRC") to contain the COVID-19 outbreak, especially in the first quarter of 2020, classes at schools in our major markets in the PRC were suspended. As a result, installation works for our digital Chinese calligraphy education equipment in classrooms according to the purchase orders placed by schools and colleges were delayed and the production and sales promotion activities initially scheduled for this business segment were disrupted.

Due to the effort of our sales teams, sales in the second half of the Year rebounded significantly. The Group remains optimistic about the prospects of this segment in the long term.

### Provision of Consulting Services

During the Year, the Group's newly established non-wholly owned subsidiary, NEQH Development and Construction Co. Ltd* (核建青控開發建設有限公司) ("the Joint Venture Company") provided consultancy services for projects and works related to construction and development of new urban districts in the PRC.

The Group is optimistic for the significant business opportunities posed to this business segment going forward. While the local governments continue to pursue the national policy of deepening and widening the overall economic development of their governing regions, it is expected that, they shall maintain momentum and initiatives to implement infrastructure projects relating to urban reconstruction and development, construction and development of new districts, building and operating infrastructure and networks of roads, and construction of buildings. It is believed that there will be demand for the consulting services of the Joint Venture Company.

### Loan Financing Business

It is expected that loan financing business will continue to be part of the main income stream of the Group when the general economic condition gradually return to normal as the COVID-19 outbreak stabilities.

### Provision of Entrusted Loan

The Group has recently expanded its loan financing business in the PRC by entering an entrusted loan contract. As at 31 December 2020, the principal amount of RMB126,100,000 has been drawn down by Huizhou Jiuyu according to the entrusted loan contract. The Group is confident that such entrusted loan arrangement will generate stable interest income to the Group going forward.

## PROSPECTS

The Board took the view that the general outlook of the business environment in which the Group operates remains challenging in the coming year. The outbreak of COVID-19 since 2019 has created economic uncertainty and interruption to the PRC and Hong Kong and imposed negative impacts on all industries. To overcome the challenges caused by the COVID-19 pandemic, the Group will adhere to prudent financial management and cost control and will continue to explore good business and investment opportunities to drive our business growth.

The Group will also endeavour its best to achieve stable and promising results with concerted efforts from all of our business partners, staff and full support from our ultimate controlling shareholder, Qingdao City Construction Investment (Group) Limited.

The Group upholds the principle of promoting the long term sustainable development of its business, with an aim to bring a stable return to our shareholders and maximise shareholders' value.

The Board, the management and all staff members of the Group will continue to devote their best efforts in achieving the business goals of the Group and overcome challenges ahead with indomitable determination to strive for outstanding results for our shareholders. I would like to express my greatest appreciation to our Directors, shareholders, customers and business partners for the continuous trust and support given to us.

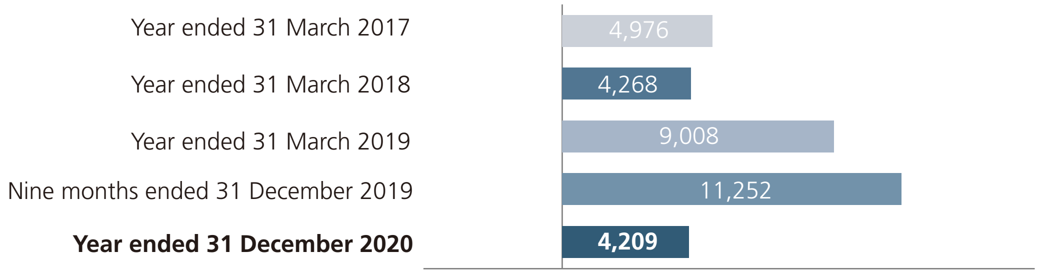
**Gao Yuzhen**
*Chairman*

Hong Kong, 31 March 2021

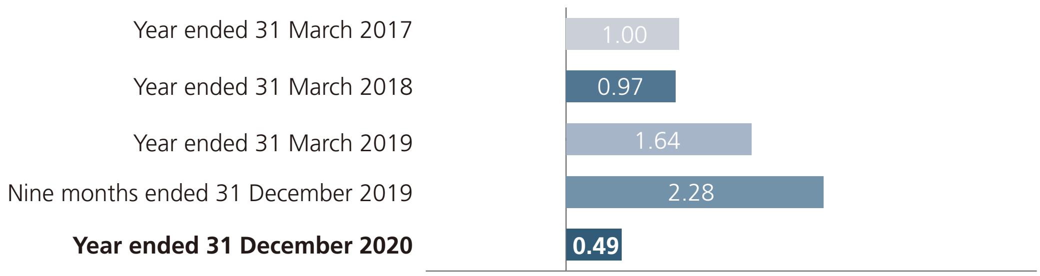
* *For identification purposes only*

# FINANCIAL SUMMARY

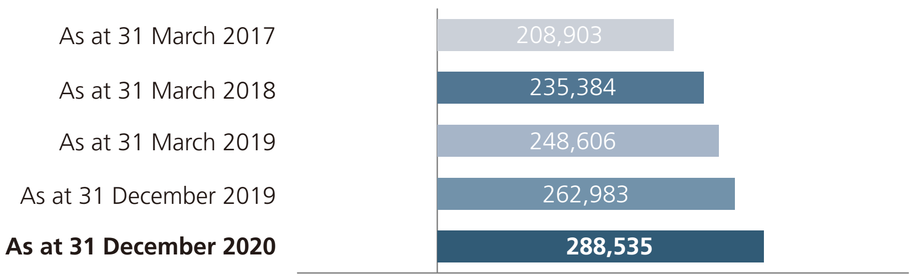
**Profit (loss) (Note 1)**
RMB'000



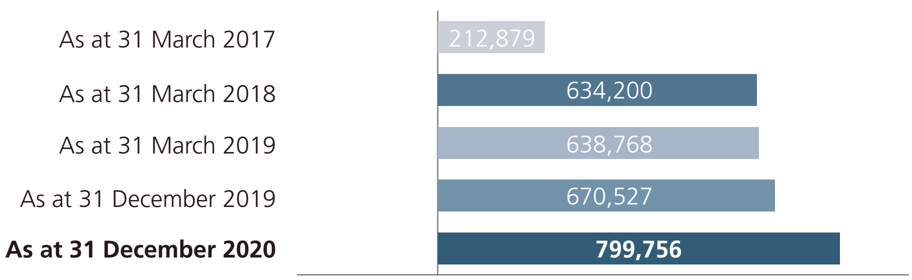

**Earnings per share (Note 2)**
RMB cents




**Total equity (Note 3)**
RMB'000




**Total assets (Note 4)**
RMB'000



A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial period/years is set out below.

| | Year ended 31 March | | | Nine months ended 31 December | **Year ended 31 December** |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | **2020** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| | (restated) | (restated) | (restated) | (restated) | |
| Revenue | 3,128 | 7,027 | 48,107 | 40,325 | **66,650** |
| Profit before tax | 5,124 | 6,619 | 10,595 | 12,815 | **10,536** |
| Income tax expense | (148) | (2,351) | (1,587) | (1,563) | **(6,327)** |
| Profit for the year/period | 4,976 | 4,268 | 9,008 | 11,252 | **4,209** |
| Attributable to: | | | | | |
| Owners of the parent | 4,977 | 4,863 | 8,200 | 11,377 | **2,435** |
| Non-controlling interests | (1) | (595) | 808 | (125) | **1,774** |
| | 4,976 | 4,268 | 9,008 | 11,252 | **4,209** |

| | As at 31 March | | | As at 31 December | **As at 31 December** |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | **2020** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| | (restated) | (restated) | (restated) | (restated) | |
| Total assets | 212,879 | 634,200 | 638,768 | 670,527 | **799,756** |
| Total liabilities | (3,976) | (398,816) | (390,162) | (407,544) | **(511,221)** |
| | 208,903 | 235,384 | 248,606 | 262,983 | **288,535** |
| Equity attributable to: | | | | | |
| Owners of the parent | 208,903 | 205,214 | 217,628 | 232,130 | **222,077** |
| Non-controlling interests | – | 30,170 | 30,978 | 30,853 | **66,458** |
| | 208,903 | 235,384 | 248,606 | 262,983 | **288,535** |

# MANAGEMENT DISCUSSION AND ANALYSIS

## CHANGE OF PRESENTATION CURRENCY

Prior to 1 January 2021, Hong Kong Dollars ("HK$") was regarded as the functional currency of the Company and the consolidated financial statements were presented in HK$. As most of the Group's transactions are denominated and settled in Renminbi ("RMB"), the Board considers that RMB is more appropriate as the presentation currency for the Group's consolidated financial statements. Pursuant to a resolution of the Board passed on 31 December 2020, the Group adopted RMB as its presentation currency for its consolidated financial statements. The Board considers that the change of presentation currency will enable the shareholders and potential investors of the Company to have a clearer picture of the Group's actual financial performance.

## BUSINESS REVIEW

The Group is principally engaged in the business of leasing of investment properties, production and sale of digital Chinese calligraphy education equipment and relevant learning and tutorial systems, provision of consulting services and the provision of loan financing during the Year.

### Leasing of Investment Properties

During the Year, the rental income from the leasing of investment properties located in Hong Kong and the People's Republic of China ("the PRC") amounted to approximately RMB27.9 million (Previous Period: RMB20.9 million), which accounted for 41.8% of the Group's total revenue.

### Production and Sale of Digital Chinese Calligraphy Education Equipment

During the Year, revenue generated from the production and sale of digital Chinese calligraphy education equipment amounted to RMB34.1 million (Previous Period: RMB18.7 million), which accounted for 51.1% of the Group's total revenue.

The Group has a solid foundation in this business segment as it has invested substantial capital for the research and development as well as the innovation of digital Chinese calligraphy education equipment. Due to the effort of our sales team and the successful containment measures of the PRC government against the COVID-19 outbreak, the performance of this segment rebounded significantly in the second half of the Year.

### Provision of Consulting Services

During the Year, the revenue generated from the provision of consulting services amounted to approximately RMB4.7 million (Previous Period: Nil). The consulting services mainly included consulting services provided to developers engaged in the construction and development of properties in new districts.

### Loan Financing

During the Year, the Group's loan financing business recorded a revenue of approximately RMB0.06 million (Previous Period: RMB0.8 million). All loan receivables were settled in early 2020. The Group did not grant any new loans during the Year as business activities had been slowing down due to the outbreak of the COVID-19.

The Group continues to maintain sound credit control policy when advancing loans to its customers. The Group holds the principle that prudent measures are particularly important and essential. The Group will continue to develop this business by employing prudent credit control procedures and strategies to maintain a balance between the business growth and the risk management.

## FINANCIAL REVIEW

### Revenue and Results

During the Year, the Group recorded a revenue of approximately RMB66.7 million (Previous Period: RMB40.3 million). The Group recorded a profit attributable to the equity holders of the parent in the amount of approximately RMB2.4 million for the Year (Previous Period: RMB11.4 million). Earnings per share was 0.49 RMB cents for the Year (Previous Period: 2.28 RMB cents). The decrease was mainly attributable to (i) the increment of the fair value of investment properties for the Year was lower than that of the Previous Period; (ii) the increase in legal and professional fees payable; and (iii) the increase in finance expenses relating to the interest expenses payable to the ultimate holding company of the Company.

Cost of inventory for the Year was approximately RMB17.8 million (Previous Period: RMB10.2 million).

Employee benefit expenses for the Year were approximately RMB10.6 million (Previous Period: RMB5.2 million), representing an increase of approximately RMB5.4 million. The increase was mainly attributable to the additional employees employed by a joint venture company, which was established in December 2019.

Other income and other gains and losses for the Year was approximately RMB5.9 million (Previous Period: RMB5.4 million), representing an increase of approximately RMB0.5 million. The other income and other gains and losses mainly represented the exchange gains arising from the translation of monetary items denominated in foreign currencies other than the functional currencies of the respective Group entities, which were approximately RMB3.3 million for the Reporting Period (Previous Period: RMB4.5 million).

Finance costs for the Year were approximately RMB18.2 million (Previous Period: RMB13.7 million), representing an increase of RMB4.5 million. Finance costs included interest payable for the unsecured loans provided by an intermediate holding company and the ultimate holding company of the Company and interest payable for the secured loan provided by a bank.

Income tax expense for the Year was approximately RMB6.3 million (Previous Period: RMB1.6 million). The increase was mainly because of the increase in the deferred tax provided for the 22nd Century Plaza during the Year.

### Segmental Information

An analysis of the Group's performance for the Year by business segment is set out in note 4 to the consolidated financial statements of this annual report.

### Dividends

The Board does not recommend the payment of any dividends for the Year (Previous Period: Nil).

### Liquidity and Financial Resources

As at 31 December 2020, the Group had total assets of approximately RMB799.8 million (31 December 2019: RMB670.5 million), whereas total liabilities of the Group amounted to approximately RMB511.2 million (31 December 2019: RMB407.5 million).

Accordingly, the net assets of the Group as at 31 December 2020 was RMB288.6 million (31 December 2019: RMB263.0 million).

As at 31 December 2020, the outstanding bank and other borrowings of the Group was approximately RMB39.5 million (31 March 2019: RMB45.8 million).

The gearing ratio of the Group, being the total liabilities to total assets, was 63.9% as at 31 December 2020 (31 December 2019: 60.8%). It is believed that the Group has adequate cash resources to meet its commitments and current working capital requirements.

### Capital Structure

The number of issued ordinary shares of the Company (the "Shares") as at 31 December 2020 and 31 December 2019 remained the same at 499,276,680.

### Pledge of Assets

As at 31 December 2020, the Group pledged certain of its investment properties with a market value of RMB135.2 million (31 December 2019: RMB146.8 million) to a bank in Hong Kong to secure mortgage financing facilities granted to the Group. As at 31 December 2020, the Group had unutilised banking facilities of RMB47.6 million (31 December 2019: RMB45.0 million).

### Foreign Exchange Exposure

The Group's financial statements are presented in Renminbi. The Group carried out its business transactions mainly in Hong Kong dollars, Renminbi and United States dollars. During the Year, Renminbi appreciated against Hong Kong dollars and United States dollars. The Group does not have any hedging arrangement on foreign exchange but will continue to closely monitor its foreign exchange exposure in Renminbi.

### Capital Commitments

The Group's capital commitments including leasehold land and buildings and capital contributions payable to joint ventures amounted to approximately RMB28.9 million as at 31 December 2020 (31 December 2019: Nil)

### Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities.

## MATERIAL TRANSACTION IN RELATION TO THE PROVISION OF ENTRUSTED LOAN

On 15 November 2019, Qingdao Holdings (Hong Kong) Limited ("Qingdao (HK)"), a wholly owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with China Nuclear Industry Zhongyuan Construction Co., Limited* (中國核工業中原建設有限公司) ("China Nuclear Industry") and China Huadong Construction and Engineering Group Limited* (中國華東建設工程集團有限公司) ("China Huadong") in relation to the formation of a joint venture company (the "Joint Venture Company"). The Joint Venture Company is principally engaged in urban reconstruction and development, construction and management of parks, construction and management of municipal facilities and equity investment and capital deployment in the PRC.

On 10 December 2019, Qingdao (HK), China Nuclear Industry and China Huadong established the Joint Venture Company pursuant to the Joint Venture Agreement. The Joint Venture Company is 51%, 30% and 19% owned by Qingdao (HK), China Nuclear Industry and China Huadong, respectively.

On 25 February 2020, the Joint Venture Company and Huizhou Meile Land Company Limited* (惠州市美樂置地實業有限公司) ("Meile Land"), an independent third party of the Company, established Huizhou Yanlong Land Company Limited* (惠州市炎隆置業有限公司) ("Huizhou Yanlong"). Huizhou Yanlong is 49% and 51% owned by the Joint Venture Company and Meile Land, respectively. Huizhou Jiuyu Real Estate Company Limited* (惠州市九煜置業有限公司) ("Huizhou Jiuyu") is wholly-owned by Huizhou Yanlong. Huizhou Jiuyu is expected to acquire the land use rights of the parcel of land which is located at No. 1 Court, Zhongkai Gaoxin District, Huizhou City, Guangdong Province, the PRC (中國廣東省惠州市仲愷高新區1號小區) (the "Land").

* *For identification purpose only*

To provide Huizhou Jiuyu with part of the funding for the acquisition, development and operating expenses of the Land, Qingdao Qifeng Technology Services Co., Ltd* (青島啟峰科技服務有限公司) ("Qifeng"), Qingdao Urban Rural Construction Mirco-credit Loan Co. Ltd.* (青島城鄉建設小額貸款有限公司) ("QURC Micro-credit Loan Company") and Huizhou Jiuyu entered into an entrusted loan arrangement on 7 May 2020 (the "Entrusted Loan Arrangement"). Pursuant to the Entrusted Loan Arrangement, QURC Micro-credit Loan Company, acting as the lending agent, agreed to release a loan in the principal amount of RMB195,100,000 (the "Entrusted Loan"), which will be funded by Qifeng, to Huizhou Jiuyu, subject to the terms and conditions of the entrusted loan contract dated 7 May 2020 entered into between Qifeng, QURC Micro-credit Loan Company and Huizhou Jiuyu (the "Entrusted Loan Contract") and the entrusted loan entrustment contract. QURC Micro-credit Loan Company is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities and is a connected person of the Company.

Upon the obtaining of the land use rights of the Land by Huizhou Jiuyu, Huizhou Jiuyu shall pledge the land use rights of the Land and its construction-in-progress property project on the Land in favour of QURC Micro-credit Loan Company as security of the Entrusted Loan. Further, Huizhou Jiuyu shall procure (i) Meile Land to pledge its 51% equity interest in Huizhou Yanlong; (ii) Huizhou Yanlong to pledge its 100% equity interest in Huizhou Jiuyu; and (iii) Meile Land to provide the joint and several liability guarantee on the Entrusted Loan, in favour of QURC Microcredit Loan Company as security of the Entrusted Loan. As at the date of this annual report, the land use rights of the Land and its construction-in-progress property project on the Land have been pledged to QURC Micro-credit Loan Company.

On 7 May 2020, QCCIG entered into a loan agreement (the "Loan Agreement") with Qifeng, pursuant to which, QCCIG agreed to provide, upon Qifeng's request, unsecured loan of RMB182,000,000 to Qifeng at an interest rate of 3.85% per annum ("Financial Assistance"). The Group intends to use its internal resources and the Financial Assistance to fund the Entrusted Loan.

One of the Group's principal business activities is the provision of loan financing. Due to the difference between the interest rates under the Loan Agreement and the Entrusted Loan Arrangement, the Group will generate positive interest income under the Entrusted Loan Arrangement. The Directors consider that the Entrusted Loan would increase the income of the Group and the interest income would generate positive cash flow for the Group.

In addition, as the Joint Venture Company (a subsidiary of the Company) indirectly owns 49% of the equity interest in Huizhou Jiuyu, the Company is expected to benefit from Huizhou Jiuyu on a pro-rata basis based on the performance of Huizhou Jiuyu. It is expected that the Entrusted Loan will be applied by Huizhou Jiuyu for the acquisition, development and operating expenses of the Land and the construction-in-progress property project on the Land. Upon completion of the development of the Land, Huizhou Jiuyu is expected to generate revenue by selling the residential properties on the Land. Qingdao (HK), a wholly-owned subsidiary of the Company, as an indirect shareholder of Huizhou Jiuyu, will benefit from the property sales of the Land.

The provision of Entrusted Loan and the transactions contemplated thereunder were approved by the independent shareholders of the Company at the special general meeting of the Company held on 30 June 2020.

The drawdown of the Entrusted Loan is conditional upon, among other things, the provision of other documents and information request by the QURC Micro-credit Loan Company as stated in the Entrusted Loan Contract. As at 31 December 2020, the Entrusted Loan in the amount of RMB126,100,000 has been drawn down by Huizhou Jiuyu.

For further details of the Entrusted Loan Arrangement, please refer to the announcements of the Company dated 7 May 2020 and 30 June 2020 and the circular of the Company dated 10 June 2020.

* *For identification purpose only*

## EVENTS AFTER THE YEAR

**The Acquisition of 95% Equity Interest in Bengbu City Huai Yi Construction and Development Ltd.* (蚌埠市淮翼建設發展有限公司) ("Huai Yi") by a Non Wholly-Owned Subsidiary**

NEQH Development and Construction Co. Ltd* (核建青控開發建設有限公司) (a non wholly-owned subsidiary of the Company) was notified on 12 March 2021 that it has won the bid to acquire 95% equity interest in Huai Yi from Bengbu City Bin He Construction and Investment Limited* (蚌埠市濱河建設投資有限公司) ("Bin He Construction"), an independent third party, in a public listing-for-sale process organised by the Bengbu City Assets and Equity Exchange Center* (蚌埠市產權交易中心) (the "Huai Yi Acquisition"). The consideration for the Huai Yi Acquisition is RMB37,564,000. As at the date of this annual report, there is an outstanding shareholder loan of RMB600,000 owing by the Huai Yi to Bin He Construction, which shall be repaid by Huai Yi after the completion of the Huai Yi Acquisition. The transaction is expected to be completed on or before 8 April 2021.

For details, please refer to the announcement dated 15 March 2021.

**Very Substantial Acquisition, Issue of Convertible Bonds under the Specific Mandate and Proposed Rights Issue**

On 17 March 2021, Yangfan (Holdings) Group Limited (揚帆(控股)集團有限公司) (a wholly-owned subsidiary of the Company) (the "Purchaser") and China Qingdao Development (Holdings) Group Company Limited (華青發展(控股)集團有限公司) (the "Vendor"), being a controlling shareholder and a connected person of the Company, entered into a sale and purchase agreement, pursuant to which the Purchaser has conditionally agreed to acquire (the "Acquisition"), and the Vendor has conditionally agreed to sell, approximately 81.91% of the equity interest in Qingdao Rural Construction Financial Leasing Company Limited* (青島城鄉建設融資租賃有限公司).

The consideration in respect of the Acquisition (the "Consideration") shall be satisfied as follows: (i) approximately HK$154.5 million shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon Completion; and (ii) approximately HK$2,224.2 million shall be payable by the issue of the convertible bonds ("Consideration CB") by the Company to the Vendor (or its nominee(s)) upon completion of the Acquisition. The Acquisition constitutes a very substantial acquisition of the Company.

In order to raise sufficient funds to settle part of the consideration and to finance the associated transaction expenses relating to the Acquisition, the Board proposed the offer of new Shares (the "Rights Issue") to Shareholders other than overseas Shareholder(s) in respect of whom the Directors, based on the legal advice provided by the legal advisers in the relevant jurisdictions, consider it necessary or expedient to exclude from the Rights Issue, on account either of the legal restrictions under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place on the basis of one (1) new Share to be allotted in respect of the Rights Issue (the "Rights Share") for every one (1) existing Share. China Qingdao International (Holdings) Company Limited ("CQIH"), a Controlling Shareholder, was wholly owned by the Vendor. Accordingly, the Vendor is an associate of CQIH and a connected person of the Company. The Acquisition is therefore a connected transaction of the Company under Chapter 14A of the Listing Rules. Since one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For details, please refer to the announcements of the Company dated 17, 22 and 24 March 2021 and the circular of the Company dated 24 March 2021.

Save as disclosed above, there is no event after the Year which would have a material impact on the Company's financial position.

* *For identification purpose only*

## OUTLOOK

The Board took the view that the general outlook of the business environment in which the Group operates remains challenging in the coming year. The outbreak of COVID-19 since 2019 has created economic uncertainty and interruption to the PRC and Hong Kong and imposed negative impacts on all industries. To overcome the challenges caused by the COVID-19 pandemic, the Group will adhere to prudent financial management and cost control and will continue to explore good business and investment opportunities to drive our business growth.

### Leasing of Investment Properties

During the Year, the Group's investment property in Qingdao City known as "22nd Century Plaza", which comprises 13 upperground floors and 136 underground carpark units, was fully leased out. Certain rental concessions however were offered to the tenants of the Group's property in Hong Kong because their business had been adversely affected by the social unrest and outbreak of the COVID-19. Except for this, the overall performance of our investment property portfolio remained stable and generated stable income and cash flow to sustain the Group's continuous development.

### Digital Chinese Calligraphy Education Equipment

Because of the implementation of precautionary measures taken by the government of the PRC to contain the COVID-19 outbreak, especially in the first quarter of 2020, classes at schools in our major markets in the PRC were suspended. As a result, installation works for our digital Chinese calligraphy education equipment in classrooms according to the purchase orders placed by schools and colleges were delayed and the production and sales promotion activities initially scheduled for this business segment were disrupted.

Due to the effort of our sales teams, sales in the second half of the Year rebounded significantly. The Group remains optimistic about the prospects of this segment in the long term.

### Provision of Consulting Services

During the Year, the Group's newly established non-wholly owned subsidiary, NEQH Development and Construction Co. Ltd* (核建青控開發建設有限公司) ("the Joint Venture Company") provided consultancy services for projects and works related to construction and development of new urban districts in the PRC.

The Group is optimistic for the significant business opportunities posed to this business segment going forward. While the local governments continue to pursue the national policy of deepening and widening the overall economic development of their governing regions, it is expected that, they shall maintain momentum and initiatives to implement infrastructure projects relating to urban reconstruction and development, construction and development of new districts, building and operating infrastructure and networks of roads, and construction of buildings. It is believed that there will be demand for the consulting services of the Joint Venture Company.

* *For identification purpose only*

**Loan Financing Business**

It is expected that loan financing business will continue to be part of the main income stream of the Group when the general economic condition gradually return to normal as the COVID-19 outbreak stabilises.

**Provision of Entrusted Loan**

The Group has recently expanded its loan financing business in the PRC by entering an entrusted loan contract. As at 31 December 2020, the principal amount of RMB126,100,000 has been drawn down by Huizhou Jiuyu according to the entrusted loan contract. The Group is confident that such entrusted loan arrangement will generate stable interest income to the Group going forward.

## HUMAN RESOURCES

The Group aims to provide employees a stimulating and harmonious working environment. The Group also encourages life-long learning and offer trainings to its employees to enhance their performance and provide support to their personal development. As at 31 December 2020, the Group employed a total of 122 full time employees (31 December 2019: 58). Employees and Directors are remunerated based on their performance and experience, current industry practices and prevailing market conditions and in accordance with the existing labour laws. In addition to basic salaries, the employees and Directors are rewarded with performance-related bonuses and other staff welfare benefits.

## EXECUTIVE DIRECTORS

Mr. Gao Yuzhen ("Mr. Gao"), aged 47, was appointed as an executive director, the chairman of the Board and the chairman of the nomination committee (the "Nomination Committee") of the Company on 27 March 2020. Mr. Gao graduated from Shandong University of Finance and Economics (formerly known as Shandong College of Finance) majoring in global economics and obtained a Bachelor's degree in economics. He also studied finance at Ocean University of China and obtained a Master's degree in economics. He has over 20 years of extensive experience in financial investment, assets operation, industry investment and business management. Mr. Gao had served as the deputy general manager of Qingdao City Investment, Culture and Media Company, the deputy general manager of Qingdao Urban and Rural Community Construction Group Company, the general manager of Qingdao City Investment and Industry Investment Group Company and the chief operating manager of Qingdao City Construction Investment (Group) Limited ("QCCIG"). He is currently the deputy general manager of QCCIG, and a director of China Qingdao Development (Holdings) Group Company Limited ("CQDHG") and China Qingdao International (Holdings) Company Limited ("CQIH"). The Company's controlling shareholder, CQIH, is the wholly-owned subsidiary of CQDHG, which is in turn wholly-owned by QCCIG.

Mr. Yuan Zhi ("Mr. Yuan"), aged 43, was appointed as an executive Director on 26 November 2015. He was appointed as the deputy chairman of the Board and the chief executive officer of the Company on 27 March 2020. He is also a director of a number of subsidiaries of the Company. Mr. Yuan is currently a general manager of QCCIG (Hong Kong Area). He is also a director of CQDHG and CQIH. CQIH, the Company's controlling shareholder, is a wholly-owned subsidiary of CQDHG. CQDHG is wholly-owned by QCCIG. Mr. Yuan graduated from the College of Economics of Ocean University of China specialising in national economics and was awarded a master's degree in economics. He has many years of experience in investment in the securities market.

Mr. Hu Liang ("Mr. Hu"), aged 39, was appointed as an executive Director on 27 March 2020. He graduated from the Department of Economics, Shandong University, Weihai with a Bachelor's degree in finance. He has over 10 years of extensive experience in finance especially in asset management, financial risk control and financial management. Mr. Hu had worked in the finance department of QCCIG, and served as the head of the risk control department of Qingdao Urban and Rural Community Construction Financing Guarantee Limited, and the assistant to general manager of Qingdao City Investment and Assets Management Company Limited. Mr. Hu is currently the deputy general manager of QCCIG (Hong Kong Area). He is also a director of CQDHG and a number of subsidiaries of the Company.

## NON-EXECUTIVE DIRECTOR

Mr. Li Shaoran ("Mr. Li"), aged 36, was appointed as a non-executive Director on 22 June 2018. He holds a master of science degree in finance from the University of Manchester. Mr. Li has experience in the investment and securities industry and administrative management. He joined QCCIG in 2014 and is currently acts as the deputy director of the general office of QCCIG.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yin Tek Shing, Paul ("Mr. Yin"), aged 78, was appointed as an independent non-executive Director on 27 September 2014. Mr. Yin is also a member of the Nomination Committee, the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. He acted as President of The Chinese Manufacturer's Association of Hong Kong from 2008 to 2009. He is currently the permanent honorary president of The Chinese Manufacturer's Association of Hong Kong, founding chairman of Hong Kong Brand Development Council, a member of the People's Political Consultative Standing Committee of Qingdao City and founding president of Hong Kong Qingdao Association Limited. Mr. Yin actively participates in serving the community and his services include acting as a member of Trade and Industry Advisory Board, a council member of Hong Kong Productivity Council, a member of Hong Kong Labour Advisory Board, a member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), a council member of Hong Kong Trade Development Council, and a committee member of Innovation and Technology Commission. He was awarded the Bronze Bauhinia Star by the HKSAR Government in 2003. He was appointed as Justice of the Peace in 2007 and was awarded the Silver Bauhinia Star by the HKSAR Government in 2009.

Mr. Wong Tin Kit ("Mr. Wong"), aged 64, was appointed as an independent non-executive Director on 27 September 2014. Mr. Wong is also the chairman of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee. Mr. Wong served in Qingdao Ocean Shipping Company which is directly operated under the Ministry of Transport and is currently president of Xiang Long (Group) International Limited. He is also the chairman of Hong Kong Shandong Business Association, vice president of Shandong Overseas Chinese Chamber of Commerce, vice president of Shandong Province Association of Overseas Liaison and a member of the People's Political Consultative Standing Committee of Shandong Province.

Ms. Zhao Meiran ("Ms. Zhao"), aged 45, was appointed as an independent non-executive Director on 27 September 2014. Ms. Zhao is also a member of the Nomination Committee, the Remuneration Committee and the Audit Committee. Ms. Zhao is a Qingdao entrepreneur engaged in industries including trading and logistics and has extensive experience in corporate management. Ms. Zhao graduated from Shanghai University and currently serves as chairman of Qingdao Jinnuo Auction House, chairman of Qingdao Cheng Kun Trading Company Limited and general manager of America Los Angeles Travel Holiday Company Limited. Ms. Zhao has been an executive member of Qingdao Red Cross Dust Fund since 2010.

Mr. Li Xue ("Mr. Li"), aged 56, was appointed as an independent non-executive Director on 27 September 2014. Mr. Li is also the chairman of the Audit Committee, a member of Nomination Committee and Remuneration Committee. Mr. Li holds a Master Degree in Economics. He has engaged in the fields of auditing theory and practical research and obtained ample research findings in basic audit theory and environmental auditing theory. He is currently a professor and a tutor for master candidates at the Accounting Department of the Management College of Ocean University of China, the director of Audit and Management Consulting Institute of the Management College of Ocean University of China, and the head of the Accounting Department of Qingdao College of Qingdao Technological University. Mr. Li is also a council member of Accounting Society of China, a member of China Audit Society, a council member of China Institute of Internal Audit and a member of the Chinese Institute of Certified Public Accountants. Mr. Li has been an independent non-executive director of Ruicheng (China) Media Group Limited, a company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 1640) since October 2019.

The Board presents the annual report of the Company and the audited consolidated financial statements of the Group for the Year.

## CHANGE OF PRESENTATION CURRENCY

Prior to 1 January 2021, Hong Kong Dollars ("HK$") was regarded as the functional currency of the Company and the consolidated financial statements were presented in HK$. As most of the Group's transactions are denominated and settled in Renminbi ("RMB"), the Board considers that RMB is more appropriate as the presentation currency for the Group's consolidated financial statements. Pursuant to a resolution of the Board passed on 31 December 2020, the Group adopted RMB as its presentation currency for its consolidated financial statements. The Board considers that the change of presentation currency will enable the shareholders and potential investors of the Company to have a clearer picture of the Group's actual financial performance.

## PRINCIPAL ACTIVITY

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 1 to the consolidated financial statements of this annual report.

## RESULTS AND APPROPRIATION

The results of the Group for the Year are set out in the consolidated statement of profit or loss and the consolidated statement of comprehensive income on pages 54 to 55 of this annual report.

The Board does not recommend the payment of any final dividends for the Year (Previous Period: Nil).

## DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") on 30 January 2019. According to the Dividend Policy, the Company considers it appropriate to align the dividend payments with profit and ensure that it is able to pay dividend on a sustainable and affordable basis. The Company may declare dividend in any financial year after taking into consideration the Company's financial position, liquidity and cash flow, capital requirement for future growth, economic conditions and any other factors to be considered by the Directors. The Company will declare dividend out of retained profit under certain circumstances, and therefore there can be no assurance that a dividend will be proposed or declared in any given year. The Company will review the Dividend Policy from time to time as and when considered necessary by the Board.

## BUSINESS REVIEW

Business review of the Group for the Year has been stated in "Management Discussion and Analysis" of this annual report. An analysis of the Group's performance during the Year using financial key performance indicators is provided in Financial Summary on page 8 of this annual report.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 9 of this annual report.

## RESERVES

Movements in reserves of the Group and the Company during the Year are set out on page 58 and in note 41 to the consolidated financial statements respectively. Total distributable reserves of the Company amounted to approximately RMB97,408,000 (Previous Period: RMB110,663,000) as at 31 December 2020.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in note 12 to the consolidated financial statements of this annual report.

## INVESTMENT PROPERTIES

The investment properties of the Group were revalued as at 31 December 2020, resulting in revaluation gains of approximately RMB6.4 million (Previous Period: RMB9.6 million).

Details of movements in the investment properties of the Group are set out in note 13 to the consolidated financial statements of this annual report.

## SHARE CAPITAL

Details of the share capital of the Company during the Year are set out in note 29 to the consolidated financial statements of this annual report.

## PRINCIPAL PROPERTIES

Particulars of the Group's principal properties are set out on page 136 of this annual report.

## BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors" on pages 19 to 20 of this annual report.

## DIRECTORS

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

**Executive Directors:**

Mr. Gao Yuzhen *(Chairman)* (appointed on 27 March 2020)
Mr. Yuan Zhi *(Deputy Chairman and Chief Executive Officer)*
Mr. Hu Hiang (appointed on 27 March 2020)
Mr. Xing Luzheng *(Chairman)* (resigned on 27 March 2020)
Mr. Jiang Yi *(Chief Executive Officer)* (resigned on 27 March 2020)
Mr. Wang Yimei (resigned on 27 March 2020)

**Non-executive Director:**

Mr. Li Shaoran

**Independent non-executive Directors:**

Mr. Yin Tek Shing, Paul
Mr. Wong Tin Kit
Ms. Zhao Meiran
Mr. Li Xue

Pursuant to bye-law 87 of the Bye-laws of the Company, Mr. Li Shaoran, Mr. Yin Tek Shing, Paul and Mr. Li Xue shall retire from office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting.

The directors who have served on the boards of directors of the subsidiaries of the Company as at the date of this report were:

Mr. Yuan Zhi
Mr. Hu Liang
Mr. Lv Qingdong
Mr. Gao Yang
Mr. Hong Wei
Mr. Ding Jun

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years and each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years.

None of the Directors who is proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation.

## RELATED PARTY TRANSACTIONS AND CONTROLLING SHAREHOLDERS' AND DIRECTORS' INTERESTS IN CONTRACTS

The related party transactions are disclosed in note 36 to the consolidated financial statements and include transactions that constitute connected transactions and continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied.

Save as disclosed above, there was no transaction, arrangement or contract of significance subsisting during or at the end of the Year in which a Director is or was materially interested, whether directly or indirectly and there was no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisting at the end of the Year or at any time during the Year.

No contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries was entered into during the Year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2020, none of the Directors and the chief executives and their associates of the Company had any interests and short positions in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

## SHARE OPTIONS

At the annual general meeting of the Company held on 22 August 2013, the shareholders of the Company conditionally adopted the share option scheme (the "Share Option Scheme"), which became effective on 27 August 2013.

The primary purpose of the Share Option Scheme is to provide incentives to Directors and eligible participants and it remains in force for a period of 10 years commencing from 27 August 2013. Under the Share Option Scheme, the Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for shares in the Company:

(i) any Director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company (the "Affiliate"); or

(ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or

(iii) a company beneficially owned by any Director, employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 22 August 2013 unless approved by the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive Directors in excess of 0.1% of the shares of the Company in issue or with a value in excess of HK$5,000,000 in any 12-month period up to and including the date of grant must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days from the date of grant and upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a date to be determined and notified by the Directors or, in the absence of such determination, the earlier of the date on which the options lapse or the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company shares.

There have been no options granted under the Share Option Scheme since its adoption. As at the date of this report, options to subscribe for up to 49,927,668 shares of the Company, representing 10% of the total number of shares in issue of the Company (i.e. 499,276,680 shares), are available for issue under the Share Option Scheme.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Options" on page 24 of this report, at no time during the Year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors, or their spouses or children under the age of 18 had any rights to subscribe for shares of the Company or had exercised any such rights during the Year.

## EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of Directors and senior management of the Group are recommended by the Remuneration Committee of the Company and approved by the Board, having regard to their duties and responsibilities with the Company, the prevailing market conditions, the benchmark of the industry and the performance of the Group. Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 8 to the consolidated financial statements of this annual report.

## SUBSTANTIAL SHAREHOLDERS INTERESTS

So far as is known to the Directors and chief executives of the Company, as at 31 December 2020, the following persons (other than a Director or chief executive of the Company or their associates) had the following interests and short positions (if any) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO.

**Interests in the shares of the Company**

***Long positions***

| **Name** | **Capacity** | **Number of shares held** (Note) | **Approximate percentage of the Company's total number of shares in issue** |
|---|---|---|---|
| 青島城市建設投資(集團)有限責任公司 (Qingdao City Construction Investment (Group) Limited*) ("QCCIG") | Interest of a controlled corporation | 344,621,633 | 69.02% |
| China Qingdao Development (Holdings) Group Company Limited ("CQDHG") | Interest of a controlled corporation | 344,621,633 | 69.02% |
| China Qingdao International (Holdings) Company Limited ("CQIH") | Beneficial owner | 344,621,633 | 69.02% |

Note: These 344,621,633 shares of the Company were held by CQIH, which is a wholly-owned subsidiary of CQDHG. CQDHG is wholly-owned by QCCIG. By virtue of the SFO, QCCIG and CQDHG are deemed to be interested in the shares of the Company held by CQIH.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the total number of shares in issue of the Company as at 31 December 2020.

* *For identification purpose only*

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales attributable to the Group's major suppliers and customers respectively for the Year are as follows:

| | |
|---|---|
| Purchases | |
| – the largest supplier | 19% |
| – five largest suppliers in aggregate | 54% |
| | |
| Sales | |
| – the largest customer | 33% |
| – five largest customers in aggregate | 48% |

None of the Directors, their close associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's total number of shares in issue) has an interest in these major customers and suppliers.

## RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The employees of the Group are one of the most important assets and stakeholders of the Group and their contribution and support are valuable at all times. The Group regularly reviews its compensation and benefits policies, according to the industry benchmark as well as the individual performance of the employees. Other fringe benefits, mandatory provident fund and share options are provided to retain loyal employees with the aim to form a professional staff and management team that can lead the Group to success.

We value our customers as our business partners and endeavour to provide a high level of quality products and quality service that provide best value for money. With regular professional inspections and testing during the production processes, the Group makes sure its products are safe for use and of excellent quality. The Group also maintains regular communications with its customers regarding the product provision and performance, in order to understand the needs and expectations of its customers and continues to make improvements on the quality of its products. In addition, regular discussions and meetings are held with tenants' team to address operational issues and to build a continuous improvement culture together.

Our suppliers are our business partners and we work with them closely to provide the same level of quality service to our customers. We fully understand that maintaining a reliable and sustainable supply chain is the key to the success of the Group's products. The Group selects suitable suppliers through the supplier assessment process to ensure that the suppliers can meet the required assessment criteria and standards, and deliver quality products and services. Moreover, inspections are carried out to verify the quality and safety standard of the materials and to ensure that they do not cause adverse impacts on the environment.

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal financial risks are set out in note 39 to the consolidated financial statements of this annual report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

Details of the discussion on the environmental policies and performance of the Company are set out in the section headed "Environmental, Social and Governance Report" on pages 38 to 48 of this annual report.

## EQUITY-LINKED AGREEMENTS

Save for disclosed in the section headed "Share Options" on page 24 of this report, the Company did not enter into any equity-linked agreements during the Year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, none of the Directors is considered to have interests in the businesses which are considered to compete or likely to compete, either directly or indirectly, with businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

## SUBSEQUENT EVENTS

Details of the significant events of the Group after the Year are set out in note 40 to the consolidated financial statement of this annual report.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, the Directors, secretary and other officers and every auditor of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, shall or may incur or sustain by or by reasons of any act done, concurred in or omitted in or about the execution of their duties in their respective offices or otherwise in relation thereto.

The Company has taken out insurance against all losses and liabilities associated with defending any proceedings which may be brought against Directors and other officers of the Company.

## COMPLIANCE WITH LAWS AND REGULATIONS

During the Year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

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

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

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

## CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 29 to 37 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a public float of its shares as required by the Listing Rules throughout the Year and up to the date of this report.

## RETIREMENT BENEFIT SCHEME

The Group operates a mandatory provident fund ("MPF") scheme for its employees. Particulars of the MPF scheme are set out in note 2.4 to the consolidated financial statements of this annual report.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

## AUDIT COMMITTEE

The Audit Committee has reviewed, with the management of the Company, the financial statements of the Group for the Year and discussed with the management of the Company on auditing, internal control, risk management systems and financial reporting matters. Information on the composition of the Audit Committee is set out in the Corporate Governance Report on page 32 of this annual report.

## AUDITORS

Messrs. Deloitte Touche Tohmatsu ("Deloitte") resigned as auditor of the Company with effect from 19 November 2019. Ernst & Young ("EY") were appointed as the auditor of the Company with effect from 26 November 2019 to fill the casual vacancy following the resignation of Deloitte.

The financial statements for the Previous Period and the Year were audited by EY. EY shall hold the office until the conclusion of the forthcoming annual general meeting of the Company pursuant to the Bye-laws of the Company. A resolution will be submitted to the forthcoming annual general meeting to re-appoint EY as the auditor of the Company.

On behalf of the Board

**Yuan Zhi**
*Executive Director, Deputy Chairman and Chief Executive Officer*

Hong Kong, 31 March 2021

The Board recognises their mission to create value and maximise returns on behalf of the shareholders of the Company while at the same time fulfilling their corporate responsibilities. Accordingly, the Company strives to promote and uphold a balanced and high standard of corporate governance.

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2020 except for certain deviations disclosed in this report.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. The Company has made specific and reasonable enquiries of all Directors and is satisfied that they have complied with the Model Code throughout the year ended 31 December 2020.

## BOARD OF DIRECTORS

The Board is responsible to the shareholders of the Company and all Directors are collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing performance and assessing the effectiveness of management strategies.

**Composition of the Board**

Currently, the Board comprises eight Directors, including three executive Directors, namely, Mr. Gao Yuzhen, Mr. Yuan Zhi and Mr. Hu Liang, one non-executive Director, namely, Mr. Li Shaoran, and four independent non-executive Directors, namely, Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue. The biographical details of the Directors are set out on pages 19 to 20 of this annual report. The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All Directors are aware of their collective and individual responsibilities to shareholders of the Company and have exercised their duties with care, skill and diligence and, thereby, have contributed to the performance of the Group.

The positions of the chairman and the chief executive officer of the Company are held by separate individuals to ensure a balance of power and authority. Mr. Gao Yuzhen is the chairman of the Board and Mr. Yuan Zhi is the chief executive officer of the Company.

Throughout the year ended 31 December 2020, the Company complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualification of accounting or related financial management expertise. The Board has received from each independent non-executive Director an annual confirmation of his/her independence and considers that all of them are independent under the guidelines set out in Rules 3.13 of the Listing Rules.

The Board members have no financial, business, family or other material/relevant relationship with each other.

**Term of Appointment of Non-executive Directors**

Each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years, subject to retirement and re-election by rotation at the annual general meeting in accordance with the Bye-laws of the Company.

**Responsibilities of the Board**

The Board reviews the performance of the operating divisions against their agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including but not limited to:

- formulating long-term strategies;
- setting objectives for management;
- approving public announcements including the interim and annual financial statements;
- setting dividend and other important policies;
- approving material borrowings and treasury policies; and
- assessing and committing to major acquisitions, disposals, formation of joint ventures and capital transactions.

The Board has established three Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee different areas of the Company's affairs.

The Directors are responsible for the preparation of the financial statements of the Company for each financial year and ensuring that they give a true and fair view of the state of affairs of the Group, the operating results and cash flows for that period. The Directors are also responsible for ensuring that proper accounting records which shall accurately reflect the financial position of the Group are maintained at all times.

All Directors have full access to accurate, relevant and timely information of the Group and are able to obtain independent professional advice on issues whenever deemed necessary.

**Continuous Professional Development of Directors**

During the year ended 31 December 2020, the newly appointed directors were given an induction after their appointment so as to ensure that they have appropriate understanding of the Group's business and of their duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provided regular updates on the business performance of the Group to the Directors. The Directors keep abreast of their responsibilities as a Director and the conduct, business activities and development of the Group. Every Director is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant statutory requirements. The Directors participated in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the year ended 31 December 2020, reading materials including regulatory updates were provided to the Directors for their reference and study.

A summary of the training received by each Director for the year ended 31 December 2020 is set out in the table below:

| **Directors** | **Training/reading materials on corporate governance, regulatory development and other relevant topics** |
|---|---|
| *Executive Directors:* | |
| Mr. Gao Yuzhen *(appointed on 27 March 2020)* | ✔ |
| Mr. Yuan Zhi | ✔ |
| Mr. Hu Liang *(appointed on 27 March 2020)* | ✔ |
| Mr. Xing Luzheng *(resigned on 27 March 2020)* | – |
| Mr. Jiang Yi *(resigned on 27 March 2020)* | – |
| Mr. Wang Yimei *(resigned on 27 March 2020)* | – |
| *Non-executive Director:* | |
| Mr. Li Shaoran | ✔ |
| *Independent Non-executive Directors:* | |
| Mr. Yin Tek Shing, Paul | ✔ |
| Mr. Wong Tin Kit | ✔ |
| Ms. Zhao Meiran | ✔ |
| Mr. Li Xue | ✔ |

Under code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills, and should provide a record of the training they received to the issuer. Mr. Xing Luzheng, Mr. Jiang Yi and Mr. Wang Yimei, the former Directors, have not provided a record of the training to the Company during the period from 1 January 2020 to 26 March 2020.

**Board Meetings**

Directors are consulted on matters to be included in the agenda for Board meetings and have accessed to advice and services to ensure that Board meeting procedures and all applicable rules and regulations are followed.

During the year ended 31 December 2020, the Board held four regular Board meetings. Code provision A.1.3 of the CG Code stipulates that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the year ended 31 December 2020, two Board meetings were convened with less than 14 days' notice to facilitate the Directors' timely decision making process in respect of internal affairs of the Group. The Board will use reasonable endeavor to meet the requirement of code provision A.1.3 of the CG Code in the future.

Code provision A.2.7 of the CG Code stipulates that the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. During the year ended 31 December 2020, a formal meeting was not arranged between the Chairman of the Board and the independent non-executive Directors without the other Directors present due to tight schedules of the Chairman of the Board and the independent non-executive Directors. The independent non-executive Directors may communicate and discuss with the Chairman directly at any time to share their view on the Company's affairs. The Company considers that there are sufficient channels and communication for discussion of the Company's affairs between the Chairman and independent non-executive Directors in the absence of other Directors.

## BOARD COMMITTEES

**Audit Committee**

During the year ended 31 December 2020, the Audit Committee comprised four independent non-executive Directors, namely, Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue (chairman of the Audit Committee). Mr. Li Xue has appropriate professional qualifications and experience as required by the Listing Rules.

The Audit Committee is responsible for reviewing the Group's financial information, overseeing the Group's financial reporting and risk management systems and internal control procedures and the effectiveness of the Group's internal audit function and making recommendations to the Board on the appointment, re-appointment and/or removal of the external auditors, including approving their remuneration and terms of engagement.

The primary duties of the Audit Committee are to review and advise on the accounting principles and practices adopted by the Group, and overview the auditing and financial reporting processes and the risk management and internal control systems of the Group, including reviews of the Group's interim and annual reports.

The Audit Committee held two meetings and passed written resolutions during the year ended 31 December 2020.

During the year ended 31 December 2020, the Audit Committee performed the following duties:

(a) reviewed the audited consolidated financial statements of the Group for the nine months ended 31 December 2019 with the external auditors and the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2020 with recommendations to the Board for approval;

(b) reviewed the reports on risk management and internal control systems of the Group covering financial, corporate governance, internal control and operational functions;

(c) considered the independent auditor's independence and fees in relation to the audited consolidated financial statements of the Group for the nine months ended 31 December 2019, the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2020 and non-audit related services; and

(d) reviewed and recommended the Board the adoption of Renminbi as the presentation currency for the consolidated financial statements of the Group.

**Remuneration Committee**

The Remuneration Committee was established on 29 March 2012. During the year ended 31 December 2020, the Remuneration Committee comprised four independent non-executive Directors, namely, Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit (chairman of the Remuneration Committee), Ms. Zhao Meiran and Mr. Li Xue.

The Remuneration Committee held one meeting and passed written resolutions during the year ended 31 December 2020.

During the year ended 31 December 2020, the Remuneration Committee performed the following duties:

(a) reviewed and recommended the remuneration packages of the existing Directors; and

(b) reviewed and recommended the remuneration packages of the newly appointed executive Directors.

The emoluments payable to Directors are determined by the Board under the recommendation of the Remuneration Committee with reference to the Directors' duties and responsibilities with the Company, the prevailing market conditions, the benchmark of the industry and the performance of the Group.

**Nomination Committee**

The Nomination Committee was established on 29 March 2012. During the year ended 31 December 2020, the Nomination Committee comprised one executive Director, namely, Mr. Gao Yuzheng (appointed as the chairman of the Nomination Committee on 27 March 2020 upon the resignation of Mr. Xing Luzheng as an executive Director on 27 March 2020) and four independent non-executive Directors, namely, Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue.

The Nomination Committee held one meeting and passed written resolutions during the year ended 31 December 2020.

During the year ended 31 December 2020, the Nomination Committee performed the following duties:

(a) assessed the independence of the independent non-executive Directors;

(b) reviewed the structure, size and composition of the Board;

(c) reviewed and recommended the retiring Directors standing for re-election at the 2020 annual general meeting; and

(d) reviewed and recommended the appointment of the executive Directors.

On 30 January 2019, the Board adopted the revised Board Diversity Policy. Pursuant to the Board Diversity Policy, in reviewing the Board's diversity, the Board will consider including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. New Directors, being individuals who are suitably qualified and expected to make a positive contribution to the performance of the Board and having regards to the criteria stated in the Board Diversity Policy, are identified and submitted to the Board or the shareholders of the Company for approval either to fill vacancies on the Board or to be appointed as additional Directors.

On 30 January 2019, the Board adopted the Nomination Policy, which sets out the key selection criteria and nomination procedures of the Nomination Committee in making recommendations to the Board on the appointment of Directors or re-appointment of any existing Director(s) and succession planning for Directors.

According to the Nomination Policy, the ultimate responsibility for selection and appointment of Directors rests with the entire Board or the shareholders in general meeting as the case may be. The Board has delegated the relevant screening and evaluation process to the Nomination Committee, which identifies suitably qualified Director candidates and recommends them to the Board. In assessing the suitability of a proposed candidate, the Nomination Committee takes into consideration the candidate's good character, integrity and competent to act as Director, skills, knowledge and experience in the commercial and professional fields which are relevant to the principal business of the Group, his/her commitment to devoting sufficient time and attention to the Board and on merit, against objective criteria and with due regard to the diversity perspectives set out in the Board Diversity Policy. After undertaking adequate due diligence in respect of the appointment of the proposed candidate to the Board, the Nomination Committee nominates the relevant candidates to the Board for approval and appointment. The Board will make recommendation to the shareholders in respect of the proposed re-election of Directors at general meeting.

The Nomination Committee shall review the Nomination Policy, as appropriate, to ensure its effectiveness. It shall discuss any revisions to the Nomination Policy that may be required and make recommendation to the Board for approval.

The written terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are available on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.qingdaohi.com).

Details of the attendance of individual Directors at Board meetings, Board committees meetings, the annual general meeting (the "AGM") and the special general meeting (the "SGM") both held on 30 June 2020 during the year ended 31 December 2020 are set out in the table below:

| | Number of meetings attended/Eligible to attend | | | | | |
|---|---|---|---|---|---|---|
| **Members of the Board** | **Board Meeting** | **Audit Committee Meeting** | **Remuneration Committee Meeting** | **Nomination Committee Meeting** | **AGM** | **SGM** |
| *Executive Directors:* | | | | | | |
| Mr. Gao Yuzhen *(appointed on 27 March 2020)* | 1/3 | N/A | N/A | N/A | 0/1 | 0/1 |
| Mr. Yuan Zhi | 4/4 | N/A | N/A | N/A | 0/1 | 0/1 |
| Mr. Hu Liang *(appointed on 27 March 2020)* | 3/3 | N/A | N/A | N/A | 0/1 | 0/1 |
| Mr. Xing Luzheng *(resigned on 27 March 2020)* | 0/1 | N/A | N/A | 0/1 | N/A | N/A |
| Mr. Jiang Yi *(resigned on 27 March 2020)* | 0/1 | N/A | N/A | N/A | N/A | N/A |
| Mr. Wang Yimei *(resigned on 27 March 2020)* | 0/1 | N/A | N/A | N/A | N/A | N/A |
| *Non-executive Director:* | | | | | | |
| Mr. Li Shaoran | 4/4 | N/A | N/A | N/A | 0/1 | 0/1 |
| *Independent Non-executive Directors:* | | | | | | |
| Mr. Yin Tek Shing, Paul | 4/4 | 2/2 | 1/1 | 1/1 | Attended in person | Attended in person |
| Mr. Wong Tin Kit | 3/4 | 1/2 | 0/1 | 0/1 | Attended by telephone | Attended by telephone |
| Ms. Zhao Meiran | 4/4 | 2/2 | 1/1 | 1/1 | Attended by telephone | Attended by telephone |
| Mr. Li Xue | 4/4 | 2/2 | 1/1 | 1/1 | Attended by telephone | Attended by telephone |

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. Due to the outbreak of COVID-19, Mr. Gao Yuzhen, the Chairman of the Board, could not attend the AGM. The AGM was chaired by Mr. Yin Tek Shing, Paul, an independent non-executive Director.

## CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the corporate governance duties as set out below:

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

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

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

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

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify the Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the execution of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

## FINANCIAL REPORTING

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group. The responsibilities of the Directors are to oversee the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of its results and cash flows for that period. The Directors have to ensure that the consolidated financial statements of the Group are in accordance with the statutory requirements and applicable accounting standards, adjustments and estimates made are prudent, fair and reasonable and the consolidated financial statements are prepared on a going concern basis. The Directors also acknowledge that the publication of the consolidated financial statements of the Group should be made in a timely manner.

The statement of the independent auditor regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 52 to 53 of this annual report.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board recognises its responsibility to ensure the Company maintains a sound and effective risk management and internal control systems. The Group's internal control system is designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with the relevant accounting standards and regulatory reporting requirements, and key risks that may have impact on the Group's performance are appropriately identified and managed. The annual review of the Group's internal controls covers major financial, operational and compliance controls, as well as risk management functions. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework includes risk identification, risk assessment, risk treatment and monitoring and reviewing of the effectiveness of the measures. This risk management framework is guided by the three-tier risk management approach. At the first line of defense, business units are responsible for identifying, assessing and monitoring risks associated with each business or deal. The management, as the second line of defense, defines rule sets and models, provides technical support, develops new systems and oversees portfolio management. It ensures that risks are within the acceptable range and that the first line of defense is effective. As the final line of defense, the Audit Committee, with the professional advices and opinions from the external professional consultant by whom internal audit work of the Group was conducted on annual basis, ensures that the first and second lines of defense are effective through constant inspection and monitoring.

The Board has engaged an external professional consultant to review the risk management and internal control systems for the year ended 31 December 2020. The Audit Committee and the Board have discussed and reviewed the results of the review. The Board considers the review effective and adequate. Where appropriate, the external professional consultant's recommendations have been adopted and enhancements to the risk management and internal controls have been made.

The Group has established procedures in handling and dissemination of inside information in an accurate and secure manner and to avoid possible mishandling of inside information within the Group.

## EXTERNAL AUDITOR

During the year ended 31 December 2020, the fees paid/payable to the auditor and its affiliated firms in respect of audit and non-audit services provided by the auditor and its affiliated firms were as follows:

| **Nature of services** | **Amount** HK$'000 |
|---|---|
| Audit service | 1,780 |
| Agreed-upon procedures in respect of unaudited interim financial statements | 420 |
| Agreed-upon procedures in respect of debts and cash flow forecast | 400 |

The re-appointment of Messrs. Ernst & Young as auditor of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

## COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric ("Mr. Chan") is the company secretary of the Company. He is a director of a corporate service provider. Mr. Jiang Yi, a former executive Director, was the primary corporate contact person of the Company for the period from 1 January 2020 to 26 March 2020. Mr. Yuan Zhi, an executive Director, became the primary corporate contact person of the Company with effect from 27 March 2020 after the resignation of Mr. Jiang Yi as an executive Director on 27 March 2020.

In accordance with Rule 3.29 of the Listing Rules, Mr. Chan confirmed that he has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2020.

## SHAREHOLDERS' RIGHTS

### Procedures for convening a special general meeting by shareholders

To request to convene a special general meeting, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda. For details, please refer to the Bye-laws of the Company.

**Procedures for putting forward proposals at general meetings**

The following shareholders can submit a written requisition to move a resolution at a general meeting of the Company:

(i) any number of shareholders representing not less than one-twentieth (5%) of the total voting rights of all shareholders having at the date of the requisition a right to vote at the general meeting; or

(ii) not less than one hundred (100) shareholders.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the Company's principal place of business in Hong Kong at Unit No. 8, 26th Floor, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act of Bermuda once valid documents are received.

**Procedures for directing shareholders' enquiries to the Board**

Shareholders may at any time send their enquiries and concerns to the Board in writing through the following channel:

The Board of Directors
Qingdao Holdings International Limited
Unit No. 8, 26th Floor
Tower 1, Admiralty Centre
No. 18 Harcourt Road, Hong Kong
Email: info@qingdaohi.com

Shareholders may also direct enquiries to the Board at the general meetings of the Company.

## CHANGES IN CONSTITUTIONAL DOCUMENTS OF THE COMPANY

There were no changes in constitutional documents of the Company during the year ended 31 December 2020.

## 1. ABOUT THIS REPORT

### 1.1. Environmental, Social and Governance to Support Sustainable Development

Investors and other corporate stakeholders are concerned about their interest regarding environmental, social and governance ("ESG") matters in recent years. The current economic, public health, and social crisis have intensified the focus on sustainable development of business enterprises. ESG can be used to evaluate a company's non-financial performance with respect to a board range of social aspects. ESG factors can also be used to forecast a company's performance, for company valuation, risk management and regulatory compliance.

### 1.2. The Group's ESG Commitment

The Board of the Group understands its responsibilities and is committed to lead and steward the Group with the aim to achieve long-term returns to its shareholders, to provide a safe working environment to its employees, and to generate a positive impact on the society and the environment. The Group has been actively pursuing opportunities to expand its money lending business. In view of the increasing demand for financing services in the PRC, the Group has recently expanded its loan financing business by providing an entrusted loan to a PRC property developer. At the same time, by assessing and evaluating ESG-related risks and reporting performance in the course of business development, the Group is able to ensure operational reliance and compliance with the relevant legal and regulatory requirements. Both qualitative information and quantitative data have been collected for this ESG report (the "Report") to demonstrate the Group's ESG performance and its commitment to sustainability for the future.

### 1.3. Reporting Scope

The Report summarised the policies, management approach and performance of the Group's core and material business in the leasing of investment properties, the provision of loan financing, and the distribution of digital Chinese calligraphy educational equipment. The Group has operations in Hong Kong, Qingdao and Jinan, the PRC. The Report was prepared in accordance with the reporting principles of 'Materiality', 'Quantitative', 'Balance' and 'Consistency'. With the aim to optimise the reporting process and expand disclosures in the Report, the Group was dedicated in gathering the relevant data, formulating, implementing and monitoring policies. The Report was reviewed and approved by the Board on 31 March 2021.

### 1.4. Reporting Period

The Report illustrated and highlighted the environmental and social performance of the Group for the period from 1 January 2020 to 31 December 2020 (the "Reporting Period"). The financial year end date of the Group was changed from 31 March to 31 December as of 2019. As such, the results of the nine months period from 1 April 2019 to 31 December 2019 was used as comparative figures ("Nine Months Period 2019").

### 1.5. Reporting Framework

The Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") contained in Appendix 27 to the Listing Rules. The Report complied with the "comply or explain" provisions of the ESG Guide.

***Key Performance Indexes (the "KPIs") Reference Table***

| Reference KPIs of the ESG Guide | Corresponding KPIs in the sections of the Report |
|---|---|
| **A. Environment** | |
| A1: Emissions | Emissions Policy and Compliance<br>Carbon Footprint – Greenhouse Gas Emissions<br>Air Emission<br>Hazardous and Non-hazardous Waste Disposal |
| A2: Use of Resources | Use of Resources |
| A3: The Environment and Natural Resources | Emissions Policy and Compliance<br>Use of Resources<br>The Environment and Natural Resources |
| **B. Social** | |
| ***Employment and Labour Practices*** | |
| B1: Employment | Employment Policy and Compliance |
| B2: Health and Safety | Occupational Health and Safety Policy and Compliance |
| B3: Development and Training | Human Capital Development and Training Policy |
| B4: Labour Standards | Labour Practices and Compliance |
| ***Operating Practices*** | |
| B5: Supply Chain Management | Supply Chain Management<br>Manufacturers and Suppliers' Engagement |
| B6: Product Responsibility | Product Responsibility and Quality Assurance Process<br>Data Protection and Privacy Policy<br>Protecting Intellectual Property Rights |
| B7: Anti-corruption | Anti-corruption and Anti-money Laundering Policies and Compliance<br>Conflict of Interest Policy<br>Preventive Measures and Whistle-blowing Procedures |
| ***Community*** | |
| B8: Community Investment | Community Care<br>Towards Sustainable Development |

### 1.6. Stakeholder Engagement

Stakeholder engagement is not only important for the Group to understand its stakeholders' expectations and concerns, but it also helps to identify the risks and opportunities regarding sustainable development. To foster collaborative relationship with its stakeholders including policymakers, regulators, employees, investors, customers, suppliers and community members, the Group communicated with them through various approaches to convey business development strategies and collect thoughts and ideas and discuss and review ESG goals that are valuable to its future growth and challenges.

| Stakeholder Group | Approaches of Communication |
|---|---|
| Community | Corporate website<br>Announcements and notices<br>Financial statements/ESG information |
| Customers | Corporate website<br>Contracts and agreements<br>Product brochures<br>Comments and complaint channels<br>Business meetings and activities |
| Employees | Orientations, trainings and meetings<br>Performance appraisals<br>Notices and circulars<br>Emails and other electronic communications |
| Policymakers and Regulators | Corporate website<br>Financial statements/ESG information<br>Announcements and notices |
| Investors and Shareholders | Annual general meeting and circulars<br>Announcements and notices<br>Corporate website<br>Financial statements/ESG information<br>Investor's briefings |
| Suppliers | Business meetings and interviews<br>Contracts and agreements<br>Industrial channels' communications and activities<br>Quotations and tendering process |

### 1.7. Materiality Assessment

The Group has evaluated the ESG risks and opportunities by assessing their importance to the stakeholders and the Group through various communication channels. This assessment helped to ensure that the Group's business objectives and development direction were coincided with the stakeholders' expectations and requirements. The Group concluded that workplace health and safety, regulatory compliance and the product supply chain are issues of high importance.

### 1.8. Stakeholder Feedback

The Group welcomes stakeholders' comments and feedbacks regarding its approach and performance on ESG aspects as they are valuable to its continuous improvement and sustainability. If you have any questions, suggestions and recommendations to the Group, please send them to:

Address: Unit No. 8, 26th Floor, Tower 1 Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong

Email: info@qingdaohi.com.

## 2. ENVIRONMENTAL PERFORMANCE

The Group's core businesses are basically engaged in the leasing of investment properties, provision of loan financing, and the distribution of digital Chinese calligraphy educational equipment. While the activities of the Group's businesses were mainly conducted indoor, minimal environmental impact was caused and the Group did not contribute to air (dust and residues), water, and noise pollution.

### 2.1. Emissions Policy and Compliance

To seek long-term sustainability, the Group is committed to protecting the environment by proactively raising the environmental awareness of its employees and managing its operations at all levels in a sustainable manner. Environmental policies and processes were established to ensure efficient use of energy and natural resources to minimise environmental impact and reduce emissions and cost. The Group strictly complied with all material aspects of applicable environment protection laws and regulations in the PRC, including but not limited to the following:

- The Environmental Protection Law of the PRC;
- The Energy Conservation Law of the PRC;
- Law of the PRC on the Prevention and Control of Water Pollution;
- Law of the PRC on the Prevention and Control of Pollution from Environmental Noise;
- Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste.

### 2.2. Carbon Footprint – Greenhouse Gas Emissions

Carbon footprint is defined as the total amount of direct and indirect emissions of greenhouse gas ("GHG") expressed in terms of equivalent amount of carbon dioxide ("$CO_2$-e") emission. During the Reporting Period, the total operation area, comprising the Group's headquarters, offices and factory, was 4,308.87 square metres ("$m^2$") (Nine Months Period 2019: 3,530.80 $m^2$) and was accounted for 100% of its GHG emissions.

The total net GHG emissions generated by the Group was 101.85 tonnes of carbon dioxide equivalent ("$tCO_2$-e") (mainly carbon dioxide, methane and nitrous oxide) (Nine Months Period 2019: 59.18 $tCO_2$-e), and the emission intensity was 0.024 $tCO_2$-e/$m^2$ (Nine Months Period 2019: 0.017 $tCO_2$-e/$m^2$). The electricity consumption of the new office in Qingdao was the major result of the increase in GHG emissions. The Group has made great efforts in controlling its emissions as well as its consumption of resources. Its energy conservation practices included deploying energy efficient lightings, switching off idle lightings, computers and electrical appliances and equipment, monitoring water consumption, using digital technology and recycled paper, encouraging the use of public transport, and using tele or video conferencing as an alternative to business travel.

| Scope | Sources of GHG emissions | GHG* emissions (in $tCO_2$-e) 2020 | Nine Months Period 2019 | 2018–19 |
|---|---|---|---|---|
| 1 | Mobile – Gasoline | 10.29 | 6.97 | 1.80 |
| 2 | Purchased electricity | 76.30 | 29.60 | 47.00 |
| 3 | Disposal of paper waste | 14.87 | 22.48 | 25.23 |
| | Fresh water processing | 0.28 | 0.09 | 0.63 |
| | Sewage water processing | 0.11 | 0.04 | 0.26 |
| **Total GHG* emissions** | | 101.85 | 59.18 | 74.92 |
| **Carbon Emission intensity per $m^2$** | | 0.024 | 0.017 | 0.021 |

* The GHG is calculated according to the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" jointly published by Environmental Protection Department and Electrical and Mechanical Services Department.

### 2.3. Air emission

Air emission was generated from motor vehicles used by employees for commuting and transporting goods. Motor vehicles emit a considerable number of pollutants into the environment, the following table showed the air emission data of the Group.

| Air Emission Types of Pollutants | Emission Data (kilogram) ("kg") 2020 | Nine Months Period 2019 | 2018–19 |
|---|---|---|---|
| **Nitrogen Oxides ($NO_X$)** | 2.40 | 1.80 | 0.56 |
| **Sulphur Dioxide ($SO_2$)** | 0.05 | 0.04 | 0.01 |
| **Particulate Matter** | 0.18 | 0.13 | 0.04 |

### 2.4. Hazardous and Non-hazardous Waste Disposal

The operating activities of the Group did not produce any hazardous waste to the environment. Paper and its related marketing materials and stationery waste were one of the non-hazardous wastes generated by the Group. A total of 3,098.09 kg of paper related printed matters (Nine Months Period 2019: 4,682.95 kg) was used during the Reporting Period. Paper waste from the offices was collected by the property management for recycling and disposal.

### 2.5. Use of Resources

The Group encouraged efficient use of resources by proactively raising the environmental awareness of employees. During the Reporting Period, the primary resources consumed by the Group were electricity, gasoline, diesel, water, paper, and packaging materials.

The following table summarised the consumption of different resources by the Group.

| | | 2020 | | Nine Months Period 2019 | | 2018–19 | |
|---|---|---|---|---|---|---|---|
| Scope | Sources of GHG emissions | Consumption | Intensity | Consumption | Intensity | Consumption | Intensity |
| 1 | Mobile – Gasoline & diesel | 3,808.97 l | 0.08 $tCO_2$-e/ employee | 2,578.17 l | 0.12 $tCO_2$-e/ employee | 663.65 l | 0.03 $tCO_2$-e/ employee |
| 2 | Purchased electricity | 94,200.00 kWh | 21.86 kWh/m$^2$ | 36,557.00 kWh | 10.35 kWh/m$^2$ | 58,040.50 kWh | 16.44 kWh/m$^2$ |
| 3 | Disposal of paper waste | 3,098.09 kg | 0.12 $tCO_2$-e/ employee | 4,682.95 kg | 0.39 $tCO_2$-e/ employee | 5,257.18 kg | 0.40 $tCO_2$-e/ employee |
| | Water processing | 653 m$^3$ | 0.003 $tCO_2$-e/ employee | 226 m$^3$ | 0.002 $tCO_2$-e/ employee | 1,488.40 m$^3$ | 0.014 $tCO_2$-e/ employee |
| | Packaging Materials | 2,812.45 kg | 0.042 kg/ RMB'000 revenue | 1,881.57 kg | 0.047 kg/ RMB'000 revenue | 2,356.50 kg | 0.042 kg/ HK$'000 revenue |

***Fossil Fuel Consumption – Gasoline and Diesel***

The air emission of motor vehicles may affect the people and neighbouring communities through its environmental impact. The Group consumed 3,559.17 litre ("l") of gasoline and 249.80 l of diesel which constituted to 10.1% of the Group's total carbon footprint. Regular vehicle maintenance was conducted to ensure optimal vehicle performance and fuel efficiency.

***Energy Consumption – Electricity***

The total electricity consumption was 94,200.00 kilowatt-hour ("kWh") and constituted to 74.9% of the Group's total carbon footprint. It was attributed to the electricity usage of lightings, air-conditioning, and electrical appliances and equipment.

***Water Consumption***

The Group did not encounter any issue in sourcing water that was fit for purpose. The total water consumption was 653 cubic metres ("m$^3$") during the Reporting Period. The water consumption of the Group's headquarters in Hong Kong was not available for disclosure as it was included in the property management fee. Besides, the amount of water used was insignificant. The Group has actively introduced water conservation measures to enhance water efficiency and save this precious natural resource on earth.

***Paper and Printed Matters Consumption***

The total paper consumption constituted to 14.6% of the Group's total carbon footprint. Paper was used by administration, marketing, and report publication purposes during the Reporting Period. Reducing the consumption of paper and printed matters has been one of the environmental objectives of the Group.

***Packaging Material Used for Finished Products***

Various packaging materials were used for the packaging of finished calligraphy educational equipment. Materials ranging from plastic wrapping, stretch films, foam board and adhesive type were used for the packaging of finished products. Approximately 2,812.45 kg of packaging materials (Nine Months Period 2019: 1,881.57 kg) were used for product protection and transportation. The Group constantly considering and evaluating the use of more environmentally friendly materials in the packaging process and aiming to reduce the weight and consumption of packaging materials by encouraging employees and suppliers' feedback through research and discussions to minimise its environmental impact.

### 2.6. The Environment and Natural Resources

To seek long-term sustainability of the environment and community where it operates, the Group has made great efforts in controlling its emissions as well as documenting its consumption of resources and has strictly complied with the relevant environmental laws and regulations in Hong Kong and the PRC. While the Group's businesses were mainly conducted indoor, minimal environmental impact was caused by office-based work.

## 3. EMPLOYMENT AND LABOUR PRACTICES

### 3.1. Employment Policy and Compliance

As at 31 December 2020, the total workforce of the Group was 122 (Nine Months Period 2019: 58). The employee composition of the Group was summarised in the following table. As human resource is one of the key elements to the Group's future development and success, the Group continued to foster a sense of ownership at work by building a stimulating yet harmonious working environment for its employees.

The Group provides equal opportunities to its employees in respect of recruitment, training and development, job advancement, and remuneration and benefits. Employees' remuneration is designed to attract, retain, and motivate employees for maintaining a fair, productive and sustainable workforce. The objective of the Group's human resource management is to reward and recognise employees by reviewing their salaries and wages through the performance appraisal system. Performance appraisal is conducted annually based on the employees' job performance, knowledge and experience.

| Employee Structure | | 2020 | Nine Months Period 2019 | 2018–19 |
|---|---|---|---|---|
| **Total number of employees** | | 122 | 58 | 63 |
| **By gender** | | | | |
| | Male | 66.4% | 24.1% | 23.8% |
| | Female | 33.6% | 75.9% | 76.2% |
| **By age** | | | | |
| | 18–25 | 21.3% | 29.3% | 30.2% |
| | 26–35 | 41.0% | 44.9% | 33.3% |
| | 36–45 | 27.9% | 15.5% | 19.0% |
| | 46–55 | 6.5% | 8.6% | 12.7% |
| | 56 or above | 3.3% | 1.7% | 4.8% |
| **By employee category** | | | | |
| | Senior Management | 13.9% | N/A# | N/A# |
| | Middle Management | 12.3% | N/A# | N/A# |
| | General staffs | 73.8% | N/A# | N/A# |
| **Annual Turnover Rate** | | 17.0% | 24.0% | 2.0% |

# Data not available

### 3.2. Occupational Health and Safety Policy and Compliance

Ensuring the health and wellbeing of employees is an important material aspect of the Group as human resource is one of the Group's most valuable assets. In compliance with the relevant occupational health and safety regulations, and to maintain a healthy and safe working environment; trainings, instructions and guidelines regarding health and safety precautions were developed and communicated to the employees periodically. Trainings on good workplace practices that were tailored specifically to the nature of work and working environment were provided.

The COVID-19 pandemic crisis has been putting pressure on the Group and its employees during the Reporting Period. As part of the COVID-19 countermeasures and to prevent the spread of the virus, the Group complied strictly with the virus prevention regulations as required by the respective local government, and stringent infection preventive measures were implemented to protect its employees. The Group encouraged personal hygiene by providing surgical masks and alcohol-based hand rub in its offices, posters and notices were posted in the workplace to provide relevant health and safety information to employees.

The Group arranged some of its employees to work from home and to conduct business meetings online to minimise the spread of the COVID-19. Employees were advised to wear masks and avoid crowded places when they were required to meet people or work outside in their local community. The Group also established a response mechanism in responding to scenarios where employees were infected by COVID-19 to minimise the impact to other employees, the neighbour of the Group and the members of the public.

During the Reporting Period, the Group was not aware of any non-compliance relating to health and safety related laws and regulations.

| Occupational Health and Safety Data | 2020 | Nine Months Period 2019 | 2018–19 |
|---|---|---|---|
| Number of work injury cases | 0 | 0 | 0 |
| Number of work-related fatalities | 0 | 0 | 0 |
| Lost days due to work injury | 0 | 0 | 0 |
| Work injury rate | 0 | 0 | 0 |

### 3.3. Human Capital Development and Training Policy

The Group strives to provide its employees with a decent working environment with opportunities to grow with the Group. The Group provides both external professional training and on-the-job trainings to improve employees' knowledge and skills. To encourage lifelong learning and assist employees to cope with the needs of emerging technologies, the Group also provides educational grant to support employees to participate in personal and professional training to further develop themselves and progress on their career paths.

The following table listed the data of training hours by employee category:

| Training Hours | 2020 |
|---|---|
| Total | 157 hours |
| Average (per employee) | 1.3 hours |
| **By Employee Category (Average training hours per employee)** | |
| Senior Management | 5.8 hours |
| Middle Management | 3.9 hours |
| General Staffs | 0 hour |

### 3.4. Labour Practices and Compliance

The Group complied with the applicable laws and regulations on employment, child and forced labour practices during the Reporting Period. The Group's employee handbook is structured to communicate important ground rules and regulations surrounding employment and labour standard, remuneration and benefits, leave and holidays, training and development, business conduct and ethics, and occupational health and safety. It is an essential tool to define the expectations of the management and to protect employees from unfair or inconsistent treatment and discrimination.

Recruitment of employees is strictly abided by the guidelines and procedures as set out by the Group's human resource department so that suitable talents are recruited in accordance with the job requirement, relevant laws, and candidates' expectation.

During the Reporting Period, the Group was not aware of any cases of non-compliance with laws and regulations that have a significant impact on the Group in relation to compensation and dismissal, recruitment or promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination or other benefits and welfare.

## 4. OPERATING PRACTICES

### 4.1. Supply Chain Management

The Group's procurement policy is to ensure that products and services are procured in an honest, competitive, fair, and transparent manner. Products and services suppliers are being selected based on tender terms and factors including their reputation, financial reliability, product quality and price stability. Sourcing for supplies is generally executed by the Group's administration department. The approved suppliers list is updated periodically and communicated to employees annually.

### 4.2. Manufacturers and Suppliers' Engagement

The Group had 43 products and services suppliers (Nine Months Period 2019: 40) on the approved suppliers' list during the Reporting Period. The Group recognised the importance of using strategic suppliers who offer innovative, high quality, environmentally friendly, safe and technologically advanced products to meet the Group's developing needs.

### 4.3. Product Responsibility and Quality Assurance Process

The Group is committed to providing high quality products and responsible services to its customers. The Group regularly monitors, reviews, and when necessary, updates the existing policies and procedures for product quality improvement, customer due diligence, record-keeping, customer protection and employees' training. Considerable efforts were made on redefining operations and service flow to maximise customer experience and ensure professional and attentive services were provided. A customer service hotline is available to take enquires and feedback from customers. During the Reporting Period, there was no significant complaint in product and service quality in Hong Kong and the PRC.

### 4.4. Data Protection and Privacy Policy

As a responsible enterprise and a money lender's license holder, the Group complied with the Personal Data (Privacy) Ordinance during the Reporting Period by protecting all personal data collected from customers, employees and suppliers. As stipulated in the Group's code of conduct on data protection policy, company servers and computers are protected from access passwords. Employees were instructed of their responsibility to ensure the safekeeping of all personal data, trade secrets and proprietary information.

### 4.5. Protecting Intellectual Property Rights

The Group registered several trademarks and domain names as they are important to its brand and corporate image. The Group complied with the intellectual property (the "IP") rights regulations. During the Reporting Period, there was no material infringement of the IP rights and the Group is confident that all reasonable measures have been taken to prevent any infringement of its own IP rights and the IP rights of third parties.

## 5. ANTI-CORRUPTION AND ANTI-MONEY LAUNDERING POLICIES AND COMPLIANCE

To uphold and promote the highest standards of ethical corporate practices and to support the value of integrity and accountability, the Group is committed to comply with all applicable rules and regulations with regards to corruption, money laundering, extortion, fraudulent activities and conflict of interest so that businesses are conducted in an honest and transparent manner. As a money lender's license holder, the Group developed comprehensive credit approval policy and process in accordance with the Money Lenders Ordinance (the "MLO"), to prevent and detect money laundering and ensure the money lending business was in compliant with the MLO. As stipulated in the Group's code of conduct, all directors and employees must adhere to the ethical consideration when they are engaged in the Group's business activities. During the Reporting Period, the Group was not aware of any non-compliance with relevant laws and regulations that would have any significant impact on the Group, nor any corruption litigation against the Group or its employees.

### 5.1. Conflict of Interest Policy

The Group required its directors and employees to avoid the conflict between personal and financial interest and the professional official duties in the Group. A situation in which directors or employees exercise authority, influences decisions and actions or gain access to valuable information when dealing with third parties with his profession to achieve financial and personal gain is strictly prohibited.

### 5.2. Preventive Measures and Whistle-blowing Procedures

The Group's code of conduct requires its directors and employees to declare any conflict of interest by completing the required form as instructed by the management. Prompt declaration or whistleblowing must be made to the management when suspected fraud, irregularities, conflict of interest or misconduct are discovered or found. During the Reporting Period, reading materials regarding the prevention and detection of fraudulent activities were provided, and the employees were aware of the Group's ethical requirements.

## 6. COMMUNITY INVESTMENT

### 6.1. Community Care

The Group is committed to conducting business in a way which minimises any potential environmental and social impact to its stakeholders, in particular, its employees and community members. The Group will continue to explore opportunities in contributing to charitable or community events to play a role in making a difference and strengthening the community.

## 7. TOWARDS SUSTAINABLE DEVELOPMENT

The outbreak of the COVID-19 pandemic in 2020 has changed the outlook of the business world. People are becoming more and more concerned about public health, wellness, and issues such as climate change, natural resource depletion and environmental degradation. The Group recognised that expanding its core business portfolio, improving resource use efficiency, and minimising potential environmental and social impact to its stakeholders are of ultimate importance to sustainable development. The Group will continue to consider all possible environmental and social impacts as well as economic aspects when constructing business development strategy in the future.

EY 安永

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**To the shareholders of Qingdao Holdings International Limited**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Qingdao Holdings International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 135, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2020, 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 ended 31 December 2020 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of investment properties*** | |
| As at 31 December 2020, the Group's investment properties amounted to RMB481,857,000 and represented 60% of the Group's total assets. As disclosed in note 3 to the consolidated financial statements, the Group's investment properties were stated at fair values based on valuations carried out by an independent and professionally qualified valuer (the "Valuer"). The valuations of the investment properties were dependent on certain significant unobservable inputs, including term yield, reversionary yield, reversionary rents and adjusted market price. Management's assessment on the fair value of investment properties was significant to the audit because this process requires significant judgements and estimates.<br><br>We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, along with the judgments involved in determining the inputs used in the valuation.<br><br>Related disclosures are included in note 3 and note 13 to the consolidated financial statements. | Our procedures in relation to valuation of the investment properties included:<br><br>• Obtaining an understanding of management controls over the valuation of investment properties;<br><br>• Evaluating the competence, capabilities and objectivity of the Valuer;<br><br>• Assessing the scope of the valuations, significant assumptions and key inputs in the valuation by involving our internal valuation specialists to assist us in checking the source data and methodology used in the valuation; and<br><br>• Assessing the adequacy of the disclosures of the valuations of investment properties in the consolidated financial statements. |

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment of goodwill and intangible assets*** | |
| As at 31 December 2020, the carrying values of goodwill and intangible assets that have been allocated to the production and sale of education equipment business were RMB5,210,000 and RMB17,446,000, respectively.<br><br>Determining whether goodwill and intangible assets are impaired required the management's estimation of the recoverable amount of the cash-generating unit ("CGU") to which goodwill and intangible assets have been allocated.<br><br>Management has engaged the Valuer to carry out the impairment test. In estimating the value in use of the CGU, key assumptions used by management included discount rate, growth rate, budgeted sales and gross margins of the CGU. These are all subject to the estimates and judgements of management. The management of the Group determined that there was no impairment of the goodwill and intangible assets as at 31 December 2020.<br><br>We identified the impairment assessment of goodwill and intangible assets as a key audit matter due to the complexity and significant judgments involved in management's assessment process.<br><br>Related disclosures are included in notes 3, 15 and 16 to the consolidated financial statements. | Our procedures in relation to the impairment assessment of goodwill and intangible assets included:<br><br>• Involving our internal valuation specialists to assist us in evaluating the methodologies and discount rate applied in determining the recoverable amount of the CGU to which goodwill and intangible assets have been allocated in the impairment test;<br><br>• Evaluating the underlying data by analyzing the appropriateness of growth rates, budgeted sales and gross margins used by the Group in determining the recoverable amount of the CGU to which goodwill and intangible assets have been allocated in the impairment test;<br><br>• Checking the mathematical accuracy on the calculation of the recoverable amount of the CGU to which goodwill and intangible assets have been allocated; and<br><br>• Reperforming the sensitivity analysis about the recoverable amount with the assistance from our internal valuation specialists. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors 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.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

## 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, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

**Ernst & Young**
*Certified Public Accountants*
*Registered public interest entity auditor*
Hong Kong

31 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

| | NOTES | Year ended 31 December 2020 RMB'000 | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|---|
| Revenue | | | |
| – Goods | | **34,065** | 18,650 |
| – Rental | | **27,870** | 20,888 |
| – Interest | | **60** | 787 |
| – Consultation | | **4,655** | – |
| Total revenue | 5 | **66,650** | 40,325 |
| Cost of inventory | | **(17,812)** | (10,164) |
| Increase in fair value of investment properties | 13 | **6,387** | 9,647 |
| Other income | 5 | **2,812** | 854 |
| Other gains and losses | 5 | **3,092** | 4,582 |
| Impairment of financial assets, net | | **112** | (85) |
| Employee benefit expenses | | **(10,588)** | (5,186) |
| Other operating expenses | | **(21,881)** | (13,463) |
| Finance costs | 7 | **(18,236)** | (13,695) |
| Profit before tax | 6 | **10,536** | 12,815 |
| Income tax expense | 9 | **(6,327)** | (1,563) |
| Profit for the year/period | | **4,209** | 11,252 |
| Attributable to: | | | |
| Owners of the parent | | **2,435** | 11,377 |
| Non-controlling interests | | **1,774** | (125) |
| | | **4,209** | 11,252 |
| Earnings per share attributable to ordinary equity holders of the parent: | 11 | | |
| – Basic (RMB cents) | | **0.49** | 2.28 |
| – Diluted (RMB cents) | | **0.49** | 2.28 |

| | Year ended 31 December 2020 RMB'000 | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| **Other comprehensive (loss)/income** | | |
| *Item that may be reclassified to profit or loss in subsequent periods:* | | |
| Exchange differences arising on translation of Foreign operations | **(12,488)** | 3,125 |
| Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods | **(12,488)** | 3,125 |
| Other comprehensive (loss)/income for the year/period | **(12,488)** | 3,125 |
| Total comprehensive (loss)/income for the year/period | **(8,279)** | 14,377 |
| Attributable to: | | |
| Owners of the parent | **(10,053)** | 14,502 |
| Non-controlling interests | **1,774** | (125) |
| | **(8,279)** | 14,377 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | NOTES | **2020**<br>**RMB'000** | 2019<br>RMB'000<br>(restated) | 1 April 2019<br>RMB'000<br>(restated) |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 12 | **18,573** | 21,149 | 21,233 |
| Investment properties | 13 | **481,857** | 484,790 | 469,972 |
| Right-of-use assets | 14 | **2,655** | 1,150 | 1,805 |
| Goodwill | 15 | **5,210** | 5,210 | 5,210 |
| Other intangible assets | 16 | **17,446** | 19,880 | 21,706 |
| Investments in joint ventures | 17 | **1,000** | – | – |
| Financial assets at fair value through profit or loss | 18 | **–** | 11,792 | 11,285 |
| Deferred tax assets | 28 | **2,571** | 3,057 | 3,036 |
| Trade and other receivables | 20 | **3,000** | – | – |
| Amount due from a joint venture | 36(b) | **126,085** | – | – |
| Total non-current assets | | **658,397** | 547,028 | 534,247 |
| **CURRENT ASSETS** | | | | |
| Inventories | 19 | **10,523** | 13,319 | 13,456 |
| Trade and other receivables | 20 | **13,949** | 26,553 | 17,770 |
| Contract assets | 21 | **4,787** | – | – |
| Loan and interest receivables | 22 | **–** | 8,138 | 10,166 |
| Amount due from a joint venture | 36(b) | **1,273** | – | – |
| Other financial assets | 23 | **–** | 10,000 | – |
| Financial assets at fair value through profit or loss | 18 | **2,671** | – | – |
| Cash and cash equivalents | 24 | **108,156** | 65,489 | 61,382 |
| | | **141,359** | 123,499 | 102,774 |
| Assets of a disposal group classified as held for sale | | **–** | – | 3,443 |
| Total current assets | | **141,359** | 123,499 | 106,217 |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 25 | **11,369** | 8,127 | 4,315 |
| Contract liabilities | 26 | **5,066** | 4,153 | 139 |
| Rental deposits from tenants | | **19** | 453 | 188 |
| Interest-bearing bank and other borrowings | 27 | **37,716** | 45,521 | 808 |
| Amount due to the ultimate holding company | | **–** | – | 3,585 |
| Amount due to an intermediate holding company | | **–** | – | 237 |
| Income tax payable | | **388** | 55 | 132 |
| Total current liabilities | | **54,558** | 58,309 | 9,404 |
| **NET CURRENT LIABILITIES** | | **86,801** | 65,190 | 96,813 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **745,198** | 612,218 | 631,060 |

| | NOTES | 2020 RMB'000 | 2019 RMB'000 (restated) | 1 April 2019 RMB'000 (restated) |
|---|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | | |
| Rental deposits from tenants | | **588** | 264 | 704 |
| Interest-bearing bank and other borrowings | 27 | **1,781** | 229 | 889 |
| Loan from the ultimate holding company | 36(a)&(b) | **444,100** | 344,000 | 344,000 |
| Loan from an intermediate holding company | | **–** | – | 33,669 |
| Deferred tax liabilities | 28 | **10,194** | 4,742 | 3,192 |
| Total non-current liabilities | | **456,663** | 349,235 | 382,454 |
| Net assets | | **288,535** | 262,983 | 248,606 |
| **EQUITY** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Share capital | 29 | **39,942** | 39,942 | 39,942 |
| Other reserves | | **182,135** | 192,188 | 177,686 |
| | | **222,077** | 232,130 | 217,628 |
| Non-controlling interests | | **66,458** | 30,853 | 30,978 |
| | | **288,535** | 262,983 | 248,606 |

**Yuan Zhi**
*Director*

**Hu Liang**
*Director*

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 (note 29) | **Surplus account*** RMB'000 | **Translation reserve** RMB'000 | **Accumulated losses** RMB'000 | **Sub-total** RMB'000 | **Non-controlling interests** RMB'000 | **Total** RMB'000 |
| At 1 April 2019 (restated) | 39,942 | 263,144 | 5,442 | (90,900) | 217,628 | 30,978 | 248,606 |
| Profit for the period | – | – | – | 11,377 | 11,377 | (125) | 11,252 |
| Other comprehensive income for the period: | | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | 3,125 | – | 3,125 | – | 3,125 |
| Total comprehensive income/(loss) for the year | – | – | 3,125 | 11,377 | 14,502 | (125) | 14,377 |
| At 31 December 2019 (restated) | 39,942 | 263,144 | 8,567 | (79,523) | 232,130 | 30,853 | 262,983 |
| At 1 January 2020 (restated) | 39,942 | 263,144 | 8,567 | (79,523) | 232,130 | 30,853 | 262,983 |
| Profit for the period | – | – | – | 2,435 | 2,435 | 1,774 | 4,209 |
| Other comprehensive income for the year: | | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | (12,488) | – | (12,488) | – | (12,488) |
| Total comprehensive income/(loss) for the year | – | – | (12,488) | 2,435 | (10,053) | 1,774 | (8,279) |
| Capital contributions from non-controlling shareholders of a subsidiary | – | – | – | – | – | 33,831 | 33,831 |
| At 31 December 2020 | 39,942 | 263,144** | (3,921)** | (77,088)** | 222,077 | 66,458 | 288,535 |

* The surplus account represented the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and other reserve of a subsidiary which was acquired by the Company pursuant to a previous group reorganisation in 1997.

** These reserve accounts comprise the consolidated other reserves of RMB182,135,000 (31 December 2019: RMB192,188,000) in the consolidated statement of financial position.

| | NOTES | Year ended 31 December 2020 RMB'000 | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **10,536** | 12,815 |
| Adjustments for: | | | |
| Gain on disposal of financial assets fair value through profit or loss | 5 | **(71)** | – |
| Amortisation of intangible assets | 6 | **2,434** | 1,826 |
| Impairment losses on financial assets, net | 6 | **(112)** | 85 |
| Change in fair value of financial assets at fair value through profit or loss | 5 | **211** | (42) |
| Depreciation | 6 | **3,335** | 1,771 |
| Unrealised exchange gain | | **(2,708)** | (4,531) |
| Increase in fair value of investment properties | 13 | **(6,387)** | (9,647) |
| Finance costs | 7 | **18,236** | 13,695 |
| Interest income | 5 | **(1,816)** | (263) |
| Investment income | 5 | **(730)** | (591) |
| Operating cash flows before movements in working capital | | **22,928** | 15,118 |
| Decrease in inventories | | **2,796** | 746 |
| Increase in contract assets | | **(4,935)** | – |
| Decrease/(increase) in trade and other receivables | | **12,702** | (7,806) |
| Decrease in loan and interest receivables | | **8,315** | 2,498 |
| Increase in trade and other payables | | **3,856** | 3,531 |
| Increase in contract liabilities | | **913** | 3,918 |
| Decrease in rental deposits from tenants | | **(110)** | (212) |
| Cash generated from operations | | **46,465** | 17,793 |
| Interest received | | **615** | – |
| Hong Kong profits tax paid | | **(87)** | (164) |
| PRC tax paid | | **–** | (290) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | | **46,993** | 17,339 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investment income received | | **730** | 591 |
| Interest received | | **–** | 263 |
| Advance of loan receivables | | **(126,100)** | – |
| Disposal of investment properties | | **–** | 3,523 |
| Disposal of financial assets at fair value through profit or loss | | **18,249** | – |
| Purchases of financial assets at fair value through profit or loss | | **–** | (9,778) |
| Purchase of items of property, plant and equipment | | **(3,218)** | (97) |
| Capital contributed to joint ventures | | **(1,000)** | – |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | **(111,339)** | (5,498) |

| | NOTES | Year ended 31 December 2020 RMB'000 | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New borrowings | | **–** | 43,803 |
| Repayment of a loan from an intermediate holding company | | **–** | (35,246) |
| Principal portion of lease payment | | **(1,862)** | (563) |
| Interest portion of lease payment | | **(159)** | (37) |
| Capital injection from minority shareholders | | **33,831** | – |
| Increase a loan from the ultimate holding company | | **100,100** | – |
| Repayment of bank borrowings | | **(5,309)** | – |
| Interest paid | | **(18,435)** | (16,628) |
| **NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES** | | **108,166** | (8,671) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **43,820** | 3,170 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD** | | **65,489** | 61,382 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **(1,153)** | 937 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD** | | **108,156** | 65,489 |

## 1 CORPORATE AND GROUP INFORMATION

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong is located at Unit 8, 26th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

The Company's immediate holding company is China Qingdao International (Holdings) Company Limited, an indirect wholly-owned subsidiary of 青島城市建設投資(集團)有限責任公司 (Qingdao City Construction Investment (Group) Limited*) (the ultimate holding company), which is a state-owned enterprise controlled by Qingdao Municipal Government of the People's Republic of China.

* *The English name is for identification only.*

During the year, the Group was involved in the following principal activities:

(a) Leasing of properties: this segment mainly leases residential, industrial and commercial premises to generate rental income;

(b) Production and sale of education equipment: this segment is engaged in the research and development, production and sale of digital Chinese calligraphy education equipment together with relevant learning and tutorial systems;

(c) Loan financing: this segment provides loan financing services to individuals or corporate customers. The Group possesses a money lender licence and its money lending business is mainly carried out in Hong Kong; and

(d) Consulting service: this segment provides construction project supervision, project cost consulting and bidding consulting services in Chinese mainland.

**Information about subsidiaries**

Particulars of the Company's subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Capital Scope Limited | British Virgin Islands | US$1 | 100 | – | Investment holding |
| Capital Up Holdings Limited | British Virgin Islands | US$1 | 100 | – | Investment holding |
| Classic Charter Limited | Hong Kong | HK$50 | – | 100 | Loan financing |
| Electronics Tomorrow Property Holdings Limited | British Virgin Islands | US$100 | – | 100 | Investment holding |
| Hong Kong Hanhe Education Company Limited | Hong Kong | HK$1 | – | 100 | Investment holding |
| Issegon Company Limited | Hong Kong | HK$300,000 | – | 100 | Property investment and leasing of properties |
| Million Good Group Limited | British Virgin Islands | US$100 | – | 100 | Investment holding |
| Keen Capital Investments Limited | Hong Kong | US$1 | 100 | – | Carpark management |
| Leading Sound Limited | British Virgin Islands | US$1 | 100 | – | Investment holding |

## 1 CORPORATE AND GROUP INFORMATION (continued)

### Information about subsidiaries (continued)

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Prime Concept Development Limited | Hong Kong | HK$1 | 100 | – | Investment holding |
| Qingdao Holdings (Hong Kong) Limited | Hong Kong | HK$1 | 100 | – | Investment holding |
| Royal Asset Investments Limited | Hong Kong | HK$1 | – | 100 | Property investment and leasing of properties |
| 青島啟峰科技服務有限公司* | PRC/Mainland China | HK$30,000,000 | – | 100 | Property investment and leasing of properties |
| 山東啟華教育科技有限公司** | PRC/Mainland China | RMB72,900,000 | – | 51 | Production and sale of education equipment |
| 核建青控開發建設有限公司** | PRC/Mainland China | RMB100,000,000 | – | 51 | Project construction |
| Great Virtue Global Limited# | British Virgin Islands | US$1 | 100 | – | Investment holding |
| Yangfan (Holdings) Group Limited*# | Hong Kong | HK$1 | – | 100 | Investment holding |
| 核建青控(山東)投資控股有限公司*# | PRC/Mainland China | RMB10,000,000 | – | 51 | Real estate development business |

* Registered as a wholly-foreign owned enterprise under PRC law.
** Registered as Sino-foreign equity joint venture enterprises under PRC law.
\# These companies were incorporated by the Group during the year.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Change of presentation currency

The Company's presentation currency for its consolidated financial statements has been changed from HK$ to RMB from 1 January 2020. As most of the Group's transactions are denominated and settled in RMB, the Board considers that RMB is more appropriate as the presentation currency for the Group's consolidated financial statements. Further, the Board considers that the change of presentation currency will enable the shareholders and potential investors of the Company to have a clearer picture of the Group's actual financial performance. The effects of the change in the presentation currency have been accounted for retrospectively with comparative figures restated. The comparative amounts in the consolidated financial statements are presented as if RMB had always been the presentation currency of the consolidated financial statements. The Group has also presented the consolidated statement of financial position as at 1 April 2019 without related notes.

## 2.1 BASIS OF PREPARATION (continued)

**Change of financial year end date**

Pursuant to a resolution of the Board dated 6 December 2019, the Company's financial year end date has been changed from 31 March to 31 December commencing from the financial year of 2019 in order to in line with the financial year end date of its major subsidiaries. Accordingly, the comparative figures presented for the audited consolidated statement of profit or loss, audited consolidated statement of comprehensive income, audited consolidated statement of change in equity, audited consolidated statement of cash flows and related notes cover the audited figures of the financial year from 1 April 2019 to 31 December 2019 which may not be comparable with the amounts shown for the current year.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group 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 members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business* |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform* |
| Amendment to HKFRS 16 | *COVID-19-Related Rent Concessions (early adopted)* |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material* |

The nature and impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions that occurred after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) 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 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. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. There is no impact on the Group's financial statements upon early adoption of the amendment.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial information and performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Reference to the Conceptual Framework*[2] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | *Interest Rate Benchmark Reform – Phase 2*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKFRS 17 | *Insurance Contracts*[3, 6] |
| Amendments to HKAS 1 | *Classification of Liabilities as Current or Non-current*[3, 5] |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use*[2] |
| Amendments to HKAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract*[2] |
| *Annual Improvements to HKFRSs 2018–2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2] |

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Investments in associates and joint ventures**

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Business combinations and goodwill (continued)**

All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value measurement**

The Group measures its investment properties and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset, or in the absence of a principal market, in the most advantageous market for the asset. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

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.

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

| | | |
|---|---|---|
| Level 1 | – | based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and non-current assets/a disposal classified as group held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of non-financial assets (continued)**

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

**Related parties**

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than freehold land and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold land and buildings | 5% |
| Leasehold improvement | 10% |
| Plant and machinery | 10% |
| Furniture, fixtures and equipment | 19% to 32% |
| Motor vehicles | 24% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Investment properties**

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Non-current assets and disposal groups held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

***Patents and licences***

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

**Leases**

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

***Group as a lessee***

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*(a)* *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leased properties | 3–4 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases (continued)**

***Group as a lessee (continued)***

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of other equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

***Group as a lessor***

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

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. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets (continued)**

***Subsequent measurement (continued)***

*Financial assets at fair value through other comprehensive income (debt instruments)*

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

*Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred assets is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

***General approach***

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets (continued)**

***General approach (continued)***

The Group considers a financial asset in default when contractual payments are one year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

***Simplified approach***

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loan from and amount due to the ultimate/an intermediate holding company and interest-bearing bank and other borrowings.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial liabilities (continued)**

***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at amortised cost (loans and borrowings)*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks and other financial institutions, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of education equipment for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs or returns, discounted to their present values as appropriate.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax (continued)**

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or 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.

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition**

***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of goods.

Some contracts for the sale of education equipment provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

*(i)* *Rights of return*

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

*(ii)* *Volume rebates*

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

Construction consulting income is recognize at one time after winning the bid in accordance with the contract.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

***Revenue from other sources***

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

***Other income***

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

**Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

**Contract liabilities**

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract.

**Employee benefits**

***Pension schemes***

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

***Termination benefits***

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Dividends**

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's Bye-Laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**Foreign currencies**

These financial statements are presented in RMB, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currency of certain subsidiaries is Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve. On disposal or liquidation of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of certain subsidiaries, of which the functional currencies is Hong Kong dollars, are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

***Property lease classification – Group as lessor***

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

### Estimation uncertainty

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, are described below.

***Fair values of investment properties***

Investment properties are carried in the consolidated statement of financial position at 31 December 2020 at their fair values of RMB481,857,000 (31 December 2019: RMB484,790,000). The fair value was based on valuations on these properties conducted by a firm of independent professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income. Details of the fair value measurements are set out in note 13.

***Estimated impairment of goodwill and intangible assets***

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill and intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the present value of future cash flows expected to arise from the cash-generating unit containing goodwill and intangible assets using a suitable discount rate, growth rates, budgeted sales and gross margins. Where the actual future cash flows are less than expected, or changes in facts and circumstances result in a downward revision of future cash flows, a material impairment loss may arise. As at 31 December 2020, the carrying amounts of goodwill and intangible assets were RMB5,210,000 and RMB17,446,000 (31 December 2019: RMB5,210,000 and RMB19,880,000), respectively. Details of the impairment review are disclosed in note 15 and note 16.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Estimation uncertainty (continued)**

***Provision for expected credit losses on trade receivables and contract assets***

The Group uses a provision matrix to calculate ECLs for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates, taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances which are credit impaired are assessed for ECLs individually.

The provision for ECLs is sensitive to changes in estimates. The information about the ECLs assessment of the Group's trade receivables and contract assets are disclosed in note 20 and note 21 respectively.

***Estimated useful lives of intangible assets***

The Group's management determines the estimated useful lives of intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of a similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Actual economic lives may differ from estimated useful lives. If the actual useful lives of intangible assets are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the amortisation charges for the remaining periods.

***Leases – Estimating the incremental borrowing rate***

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

*Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 28 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable segments as follows:

(a) Leasing of properties: this segment mainly leases residential, industrial and commercial premises to generate rental income.

(b) Production and sale of education equipment: this segment is engaged in the research and development, production and sale of education equipment together with relevant learning and tutorial systems.

(c) Loan financing: this segment provides loan financing services to individuals or corporate customers. The Group possesses a money lender licence and its money lending business is mainly carried out in Hong Kong.

(d) Consulting service: this segment provides construction project supervision, project cost consulting services and bidding consulting in the Chinese mainland.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that fair value changes of investment properties, certain other income, certain other gains and losses, certain employee benefit expenses, finance costs, as well as certain other operating expenses are excluded from such measurement.

Segment assets exclude deferred tax assets and cash and cash equivalents, financial assets at fair value through profit or loss, other financial assets, tax recoverable, certain property, plant and equipment, certain other receivables of the corporate offices and assets classified as held for sale.

Segment liabilities exclude certain other payables and accrued charges of the corporate offices as these liabilities are managed on a group basis.

## 4. OPERATING SEGMENT INFORMATION (continued)

**Segment revenue and results**

***For the year ended 31 December 2020***

| | Segment revenue RMB'000 | Segment results RMB'000 |
|---|---|---|
| Leasing of properties | **27,870** | **23,813** |
| Production and sale of education equipment | **34,065** | **5,426** |
| Consulting service | **4,655** | **623** |
| Loan financing | **60** | **204** |
| Segment total | **66,650** | **30,066** |
| Increase in fair value of investment properties | | **6,387** |
| Unallocated income | | **2,601** |
| Unallocated expenses | | **(28,518)** |
| Profit before tax | | **10,536** |

***For the nine months ended 31 December 2019 (restated)***

| | Segment revenue RMB'000 | Segment results RMB'000 |
|---|---|---|
| Leasing of properties | 20,888 | 17,902 |
| Production and sale of education equipment | 18,650 | (94) |
| Loan financing | 787 | 728 |
| Segment total | 40,325 | 18,536 |
| Increase in fair value of investment properties | | 9,647 |
| Unallocated income | | 896 |
| Unallocated expenses | | (16,264) |
| Profit before tax | | 12,815 |

## 4. OPERATING SEGMENT INFORMATION (continued)

**Segment assets and liabilities**

| | Segment assets | | Segment liabilities | |
|---|---|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 (restated) | **2020 RMB'000** | 2019 RMB'000 (restated) |
| Leasing of properties | **615,517** | 496,095 | **447,530** | 350,662 |
| Production and sale of education equipment | **45,168** | 47,530 | **46,070** | 44,249 |
| Consulting service | **9,666** | – | **345** | – |
| Loan financing | **–** | 8,138 | **–** | – |
| Segment total | **670,351** | 551,763 | **493,945** | 394,911 |
| Unallocated: | | | | |
| Cash and cash equivalents | **108,156** | 65,489 | **–** | – |
| Others | **21,249** | 53,275 | **17,276** | 12,633 |
| Total | **799,756** | 670,527 | **511,221** | 407,544 |

**Other segment information**

***For the year ended 31 December 2020***

| **Other segment information** | **Leasing of properties RMB'000** | **Production and sale of education equipment RMB'000** | **Consulting service RMB'000** | **Loan financing RMB'000** | **Others RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|---|
| Impairment losses recognised in the statement of profit or loss, net | **15** | **(98)** | **148** | **(231)** | **54** | **(112)** |
| Depreciation and amortisation | **1,332** | **3,599** | **825** | **–** | **13** | **5,769** |
| Investments in joint ventures | **–** | **–** | **1,000** | **–** | **–** | **1,000** |
| Capital expenditure | **4** | **70** | **134** | **–** | **10** | **218** |

***For the nine months ended 31 December 2019 (restated)***

| Other segment information | Leasing of properties RMB'000 | Production and sale of education equipment RMB'000 | Loan financing RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Impairment losses recognised in the statement of profit or loss, net | – | 138 | (53) | – | 85 |
| Depreciation and amortisation | 961 | 2,620 | – | 16 | 3,597 |
| Capital expenditure | – | 97 | – | – | 97 |

## 4. OPERATING SEGMENT INFORMATION (continued)

**Geographical information**

***(a) Revenue from external customers***

| | Year ended 31 December 2020 RMB'000 | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| Mainland China | **63,033** | 36,883 |
| Hong Kong | **3,617** | 3,442 |
| | **66,650** | 40,325 |

***(b) Non-current assets***

| | 2020 RMB'000 | 2019 RMB'000 (restated) |
|---|---|---|
| Mainland China | **499,972** | 364,811 |
| Hong Kong | **155,854** | 167,368 |
| | **655,826** | 532,179 |

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

**Information about a major customer**

Revenue of approximately RMB21,711,000 (nine months ended 31 December 2019: RMB15,530,240) was derived from rental income received from a single customer.

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| *Revenue from contracts with customers* | | |
| Sale of education equipment | **34,065** | 18,650 |
| Consulting service | **4,655** | – |
| | **38,720** | 18,650 |
| *Revenue from other sources* | | |
| Gross rental income from investment property operating leases with fixed payments | **27,870** | 20,888 |
| Loan financing | **60** | 787 |
| | **27,930** | 21,675 |
| | **66,650** | 40,325 |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sale of education equipment | **4,153** | 139 |

The performance obligation of the sale of education equipment is satisfied upon delivery of goods and payment in advance is generally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint. As at 31 December 2020 and 31 December 2019, the variable consideration was assessed to be minimal.

The performance obligation of consulting service is satisfied upon winning the bid in accordance with the service contract.

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income is as follows:

| | Year ended 31 December 2020 RMB'000 | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| **Other income** | | |
| Bank interest income | **615** | 263 |
| Investment income from financial assets at fair value through profit or loss | **650** | 485 |
| Investment income from other financial assets | **80** | 106 |
| Interest from entrusted loans | **1,201** | – |
| Gain on disposal of financial assets at fair value through profit or loss | **71** | – |
| Government grant (Note) | **121** | – |
| Others | **74** | – |
| | **2,812** | 854 |

Note: The amount of the government grant represents the incentive subsidies received from the local district authorities in Mainland China for business activities carried out by the Group in the district. There are no unfulfilled conditions related to the grants.

An analysis of other gains and losses is as follows:

| | Year ended 31 December 2020 RMB'000 | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| **Other gains and losses** | | |
| Net foreign exchange gain | **3,303** | 4,540 |
| Gain/(loss) from change in fair value of financial assets at fair value through profit or loss | **(211)** | 42 |
| | **3,092** | 4,582 |
| | **5,904** | 5,436 |

## 6. PROFIT BEFORE TAX

The Group's profit before tax from continued operations is arrived at after charging/(crediting):

| | Notes | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|---|
| Auditor's remuneration | | **1,957** | 1,566 |
| Depreciation of property, plant and equipment | 12 | **1,541** | 1,116 |
| Depreciation of right-of-use assets | 14 | **1,794** | 655 |
| Amortisation of intangible assets | 16 | **2,434** | 1,826 |
| Impairment (reversal)/losses on financial assets, net | 20, 21, 22 | **(112)** | 85 |
| Investment income from financial assets at fair value through profit or loss | 5 | **(650)** | (485) |
| Investment income from other financial assets | 5 | **(80)** | (106) |
| Government grant | 5 | **(121)** | – |
| Net foreign exchange gain | 5 | **(3,303)** | (4,540) |
| Loss/(gain) from change in fair value of financial assets at fair value through profit or loss | 5 | **211** | (42) |
| Cost of inventory | | **17,812** | 10,164 |
| Directors' fees (note 8(a)) | 8 | **428** | 449 |
| Other staff costs: | | | |
| – Salaries and other benefits | | **10,070** | 4,587 |
| – Retirement benefit scheme contributions | | **90** | 150 |
| Total staff costs | | **10,588** | 5,186 |
| Gross rental income | | **(27,870)** | (20,888) |
| Less: Direct operating expenses that generated rental income during the year/period | | **329** | 198 |
| | | **(27,541)** | (20,690) |

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| Interest on loan from the ultimate holding company | **16,612** | 12,482 |
| Interest on loan from an intermediate holding company | **–** | 477 |
| Interest on bank loan | **1,466** | 699 |
| Interest on lease liabilities | **158** | 37 |
| | **18,236** | 13,695 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

### (a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors of the Company including the chief executive during the year/period were as follows:

| | **Year ended 31 December 2020 Fees RMB'000** | Nine months ended 31 December 2019 Fees RMB'000 (restated) |
|---|---|---|
| **Executive Directors:** | | |
| Mr. Xing Luzheng (note i) | **–** | – |
| Mr. Chen Mingdong (note i) | **–** | – |
| Mr. Jiang Yi (note i) | **–** | – |
| Mr. Wang Yimei (note i) | **–** | – |
| Mr. Yuan Zhi (notes i and ii) | **–** | – |
| Mr. Gao Yuzhen (note i) | **–** | – |
| Mr. Hu Liang (note i) | **–** | – |
| **Non-executive Director:** | | |
| Mr. Li Shaoran (note i) | **–** | 133 |
| **Independent non-executive Directors:** | | |
| Mr. Yin Tek Shing, Paul | **107** | 79 |
| Mr. Wong Tin Kit | **107** | 79 |
| Ms. Zhao Meiran | **107** | 79 |
| Mr. Li Xue | **107** | 79 |
| | **428** | 449 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (continued)

### (a) Directors' and chief executive's emoluments (continued)

Notes:

(i) The executive directors and non-executive director are also the directors or employees of the ultimate holding company and they received their emoluments from the ultimate holding company for their services in connection with the management of the affairs of the Company and the Group. There is no reasonable basis to allocate any amount to the Group.

(ii) Mr. Yuan Zhi is also the chief executive of the Company.

The emoluments of the independent non-executive directors shown above were mainly for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

### (b) Highest paid individuals

Of the five individuals with the highest emoluments in the Group, there was no director (31 December 2019: none). The emoluments of the 5 (31 December 2019: 5) individuals were as follows:

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| Salaries and other benefits | **1,645** | 1,055 |
| Retirement benefit scheme contributions | **45** | 45 |
| | **1,690** | 1,100 |

The number of the highest paid individuals whose remuneration fell within the following band is as follows:

| | **Year ended 31 December 2020 Number of employees** | Nine months ended 31 December 2019 Number of employees |
|---|---|---|
| Nil to HK$1,000,000 | **5** | 5 |

During the current year and prior period, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 9. INCOME TAX

### Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong for the current year and prior period.

### Mainland China

Under the Law of Mainland China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Mainland China subsidiaries was 25% for both the current year and prior period.

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| Current tax – Hong Kong | | |
| Charge for the year/period | **94** | 31 |
| Overprovision in prior years | **(120)** | – |
| Current tax – Mainland China | | |
| Charge for the year/period | **331** | – |
| Under provision in prior years | **–** | 50 |
| Deferred (note 27) | **6,022** | 1,482 |
| Total tax charge for the year/period | **6,327** | 1,563 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| Profit before tax | **10,536** | 12,815 |
| Tax at the domestic income tax rate of 25% (note) | **2,634** | 3,204 |
| Expenses not deductible for tax | **5,192** | 1,421 |
| Income not subject to tax | **(1,647)** | (2,833) |
| Tax losses not recognised | **4** | – |
| Utilisation of tax losses previously not recognised | **(438)** | (105) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **720** | (156) |
| Overprovision in prior years – Hong Kong profits tax | **(120)** | – |
| Underprovision in prior years – Mainland China EIT | **–** | 50 |
| Others | **(18)** | (18) |
| Income tax expense for the year/period | **6,327** | 1,563 |

Note: The domestic tax rate which is the Mainland China EIT rate, in the jurisdiction where the operation of the Group is substantially based, is used.

## 10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2020 (31 December 2019: Nil).

## 11. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share attributable to ordinary equity holders of the parent are based on:

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent | **2,435** | 11,377 |

| | **Number of shares** | |
|---|---|---|
| | **2020** | 2019 |
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue during the year/period | **499,276,680** | 499,276,680 |

The Company had no potentially dilutive ordinary shares in issue for both the current year and prior period.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | |
| At 1 January 2020 (restated) | | | | | | |
| Cost | 25,423 | 280 | 107 | 677 | 229 | 26,716 |
| Accumulated depreciation and impairment | (5,085) | (103) | (14) | (315) | (50) | (5,567) |
| Net carrying amount | 20,338 | 177 | 93 | 362 | 179 | 21,149 |
| At 1 January 2020, net of accumulated depreciation and impairment (restated) | 20,338 | 177 | 93 | 362 | 179 | 21,149 |
| Additions | – | – | – | 218 | – | 218 |
| Depreciation provided during the year | (1,256) | (28) | (16) | (186) | (55) | (1,541) |
| Exchange realignment | (1,241) | (10) | – | (2) | – | (1,253) |
| Cost at 31 December 2020, net of accumulated depreciation and impairment | 17,841 | 139 | 77 | 392 | 124 | 18,573 |
| At 31 December 2020 | | | | | | |
| Cost | 23,788 | 262 | 107 | 890 | 229 | 25,276 |
| Accumulated depreciation and impairment | (5,947) | (123) | (30) | (498) | (105) | (6,703) |
| Net carrying amount | 17,841 | 139 | 77 | 392 | 124 | 18,573 |

The carrying amounts with respect to leasehold land as at 31 December 2020 and 31 December 2019 were RMB16,873,000 and RMB19,235,000 respectively, and the total depreciation with respect to leasehold land for the year ended 31 December 2020 was RMB1,188,000 (nine months ended 31 December 2019: RMB882,000).

## 12. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2019 (restated)** | | | | | | |
| At 1 April 2019 | | | | | | |
| Cost | 24,293 | 268 | 107 | 577 | 229 | 25,474 |
| Accumulated depreciation and impairment | (3,948) | (78) | (4) | (202) | (9) | (4,241) |
| Net carrying amount | 20,345 | 190 | 103 | 375 | 220 | 21,233 |
| At 1 April 2019, net of accumulated depreciation and impairment | 20,345 | 190 | 103 | 375 | 220 | 21,233 |
| Additions | – | – | – | 97 | – | 97 |
| Depreciation provided during the period | (932) | (21) | (10) | (112) | (41) | (1,116) |
| Exchange realignment | 925 | 8 | – | 2 | – | 935 |
| Cost at 31 December 2019, net of accumulated depreciation and impairment | 20,338 | 177 | 93 | 362 | 179 | 21,149 |
| At 31 December 2019 | | | | | | |
| Cost | 25,423 | 280 | 107 | 677 | 229 | 26,716 |
| Accumulated depreciation and impairment | (5,085) | (103) | (14) | (315) | (50) | (5,567) |
| Net carrying amount | 20,338 | 177 | 93 | 362 | 179 | 21,149 |

## 13. INVESTMENT PROPERTIES

| | Investment properties Total RMB'000 |
|---|---|
| **FAIR VALUE** | |
| At 31 March 2019 (restated) | 469,972 |
| Increase in fair value recognised in profit or loss | 9,647 |
| Exchange realignment | 5,171 |
| At 31 December 2019 (restated) | 484,790 |
| Increase in fair value recognised in profit or loss | 6,387 |
| Exchange realignment | (9,320) |
| At 31 December 2020 | 481,857 |

The Group's investment properties consist of three properties in Hong Kong and one property and 136 car parks in Mainland China. The Group's investment properties were revalued on 31 December 2020 based on valuations performed by Asia-Pacific Consulting and Appraise Limited, an independent professionally qualified valuer. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting. Fluctuations in fair value of investment properties are discussed semi-annually among the board of directors of the Company.

The investment properties are leased to related parties and third parties under operating leases, further summary details of which are included in note 14 and note 36(d) to the financial statements.

At 31 December 2020, the Group's investment properties with a carrying value of RMB135,157,000 (31 December 2019: RMB146,790,000) were pledged to secure general banking facilities granted to the Group (note 34).

## 13. INVESTMENT PROPERTIES (continued)

**Fair value hierarchy**

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| | Fair value measurement as at 31 December 2020 using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1) RMB'000** | **Significant observable inputs (Level 2) RMB'000** | **Significant unobservable inputs (Level 3) RMB'000** | **Total RMB'000** |
| Recurring fair value measurement for: | | | | |
| Residential properties in Hong Kong | **–** | **–** | **10,358** | **10,358** |
| Industrial and commercial properties in Hong Kong | **–** | **–** | **80,926** | **80,926** |
| Commercial properties in Hong Kong | **–** | **–** | **43,873** | **43,873** |
| Commercial properties in Mainland China | **–** | **–** | **319,500** | **319,500** |
| Car parks in Mainland China | **–** | **–** | **27,200** | **27,200** |
| | **–** | **–** | **481,857** | **481,857** |

| | Fair value measurement as at 31 December 2019 using (restated) | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Recurring fair value measurement for: | | | | |
| Residential properties in Hong Kong | – | – | 10,620 | 10,620 |
| Industrial and commercial properties in Hong Kong | – | – | 83,430 | 83,430 |
| Commercial properties in Hong Kong | – | – | 52,740 | 52,740 |
| Commercial properties in Mainland China | – | – | 310,800 | 310,800 |
| Car parks in Mainland China | – | – | 27,200 | 27,200 |
| | – | – | 484,790 | 484,790 |

During the current year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (for the nine months ended 31 December 2019: Nil).

## 13. INVESTMENT PROPERTIES (continued)

**Fair value hierarchy (continued)**

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | Residential properties in Hong Kong RMB'000 | Industrial and commercial properties in Hong Kong RMB'000 | Commercial properties in Hong Kong RMB'000 | Commercial properties in Mainland China RMB'000 | Car parks in Mainland China RMB'000 |
|---|---|---|---|---|---|
| **FAIR VALUE** | | | | | |
| At 31 March 2019 (restated) | 9,460 | 79,790 | 49,817 | 303,705 | 27,200 |
| Increase in fair value recognised in profit or loss | 704 | 440 | 1,408 | 7,095 | – |
| Exchange realignment | 456 | 3,200 | 1,515 | – | – |
| At 31 December 2019 (restated) | 10,620 | 83,430 | 52,740 | 310,800 | 27,200 |
| Increase in fair value recognised in profit or loss | 445 | 3,024 | (5,782) | 8,700 | – |
| Exchange realignment | (707) | (5,528) | (3,085) | – | – |
| At 31 December 2020 | 10,358 | 80,926 | 43,873 | 319,500 | 27,200 |

## 13. INVESTMENT PROPERTIES (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| | Valuation techniques | Significant unobservable inputs | Range or weighted average | |
|---|---|---|---|---|
| | | | **2020** | 2019 |
| Residential properties in Hong Kong | Income capitalisation approach | Term yield | **2.35%** | 2.55% |
| | | Reversionary yield | **2.40%** | 2.60% |
| | | Reversionary rent per sq.foot. | **RMB30** | RMB34 |
| Industrial and commercial properties in Hong Kong | Income capitalisation approach | Term yield | **2.85%** | 2.95% |
| | | Reversionary yield | **2.90%** | 3.00% |
| | | Reversionary rent per sq.foot. | **RMB12** | RMB13 |
| Commercial properties in Hong Kong | Income capitalisation approach | Term yield | **2.15%** | 2.25% |
| | | Reversionary yield | **2.20%** | 2.30% |
| | | Reversionary rent per sq.foot. | **RMB52** | RMB65 |
| Commercial properties in Mainland China | Income capitalisation approach | Term yield | **4.5%** | 5.0% |
| | | Reversionary yield | **5.0%** | 5.5% |
| | | Reversionary rent per sq.metre | **RMB98** | RMB98 |
| Car parks in Mainland China | Direct comparison approach | Adjusted market price per car park | **RMB200,000** | RMB200,000 |

Under the income capitalisation approach, fair value is estimated taking into account the current rents of the property interests and the reversionary potentials of the tenancies, and the term yield and reversionary yield are then applied respectively to derive the market value of the property. A significant increase (decrease) in the reversionary rent would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the term yield and reversionary yield would result in a significant decrease (increase) in the fair value of the investment properties.

Under the direct comparison approach, fair value is estimated assuming the sale of each of these car parks in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as locations and property size. A significant increase (decrease) in the adjusted market price would result in a significant increase (decrease) in the fair value of the car parks.

## 14. LEASES

**The Group as a lessee**

The Group has lease contracts for various items of properties used in its operations. Leases of properties generally have lease terms of 3 years. Other equipment generally has lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

### *(a) Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year and period are as follows:

| | **Leased properties** RMB'000 |
|---|---|
| As at 1 April 2019 (restated) | 1,805 |
| Depreciation charge | (655) |
| As at 31 December 2019 (restated) | 1,150 |
| Additions | 3,299 |
| Depreciation charge | (1,794) |
| As at 31 December 2020 | 2,655 |

## 14. LEASES (continued)

**The Group as a lessee (continued)**

***(b) Lease liabilities***

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year and period are as follows:

| | **Lease liabilities** RMB'000 |
|---|---|
| As at 1 April 2019 (restated) | 1,697 |
| Accretion of interest recognised during the period | 37 |
| Payments | (600) |
| Carrying amount at 31 December 2019 (restated) | 1,134 |
| Analysed into: | |
| Current portion | 905 |
| Non-current portion | 229 |
| As at 1 January 2020 (restated) | 1,134 |
| New leases | 3,299 |
| Accretion of interest recognised during the year | 159 |
| Payments | (2,021) |
| Carrying amount at 31 December 2020 | 2,571 |
| Analysed into: | |
| Current portion | 790 |
| Non-current portion | 1,781 |

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

## 14. LEASES (continued)

**The Group as a lessee (continued)**

*(c)* The amounts recognised in profit or loss in relation to leases are as follows:

| | **2020** **RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| Interest on lease liabilities | **159** | 37 |
| Depreciation charge of right-of-use assets | **1,794** | 655 |
| Expense relating to short-term leases and other leases with remaining lease ended on or before 31 December 2019 (included in cost of sales) | **123** | 269 |
| Expense relating to leases of low-value assets | **–** | 1 |
| Total amount recognised in profit or loss | **2,076** | 962 |

**The Group as a lessor**

The Group leases its investment properties (note 13) consisting of three properties in Hong Kong and one property and 136 car parks in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB27,870,000 (nine months ended 31 December 2019: RMB20,888,000), details of which are included in note 4 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | **2020** **RMB'000** | 2019 RMB'000 (restated) |
|---|---|---|
| Within one year | **29,507** | 30,411 |
| After one year but within two years | **28,281** | 29,307 |
| After two years but within three years | **5,144** | 28,267 |
| After three years but within four years | **1,382** | 5,387 |
| After four years but within five years | **1,382** | 1,476 |
| After five years | **230** | 1,683 |
| | **65,926** | 96,531 |

## 15. GOODWILL

| | RMB'000 |
|---|---|
| At 31 March 2019, 31 December 2019 and 31 December 2020 | 5,210 |

Goodwill acquired in business combinations was allocated, at acquisition, to an individual cash-generating unit ("CGU"), comprising a subsidiary engaged in the research and development, production and sale of education equipment business.

**Impairment testing of goodwill**

***Production and sale of education equipment business***

The recoverable amount of CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 27% (31 December 2019: 29%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 3% (31 December 2019: 3%) per annum, which is based on industry growth forecasts. The directors of the Company considered that no impairment loss was necessary as at 31 December 2020.

Assumptions were used in the value-in-use calculation of the CGU for 31 December 2020 and 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted sales and gross margins* – The basis used to determine the value assigned to the budgeted sales and gross margins is the average results achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Discount rates* – The discount rates used are before tax and reflect specific risks relating to the relevant unit.

## 16. OTHER INTANGIBLE ASSETS

| | Design patents RMB'000 |
|---|---|
| **31 December 2020** | |
| Cost at 1 January 2020, net of accumulated amortisation (restated): | **19,880** |
| Amortisation provided during the year | **(2,434)** |
| Net carrying amount | **17,446** |
| At 31 December 2020: | |
| Cost | **24,343** |
| Accumulated amortisation and impairment | **(6,897)** |
| Net carrying amount | **17,446** |

| | Design patents RMB'000 |
|---|---|
| **31 December 2019 (restated)** | |
| At 1 April 2019: | |
| Cost | 24,343 |
| Accumulated amortisation and impairment | (2,637) |
| Net carrying amount | 21,706 |
| Cost at 1 April 2019, net of accumulated amortisation and impairment | 21,706 |
| Amortisation provided during the period | (1,826) |
| Cost at 31 December 2019, net of accumulated amortisation and impairment | 19,880 |
| At 31 December 2019: | |
| Cost | 24,343 |
| Accumulated amortisation and impairment | (4,463) |
| Net carrying amount | 19,880 |

## 17. INVESTMENTS IN JOINT VENTURES

| | 2020 RMB'000 |
|---|---|
| Share of net assets | 1,000 |

Particulars of the Group's joint ventures are as follows:

| Name | Particulars of capital invested | Place of incorporation/ registration and business | Ownership interest | Voting power | Profit sharing | Principal activity |
|---|---|---|---|---|---|---|
| Hejian Qingkong (Shandong) Project Management Co., Ltd (i) | Registered capital of RMB10,000,000 | PRC/Mainland China | 50% | 50% | 50% | Construction engineering supervision and engineering cost consulting business |
| Huizhou Yanlong Real Estate Co., Ltd (ii) | Registered capital of RMB10,000,000 | PRC/Mainland China | 49% | 49% | 49% | Real estate development business |

The above investment is indirectly held by the Company.

The financial year of the above joint ventures is coterminous with that of the Group.

(i) According to the agreement signed by both parties. The Company shall not bear the loss of the joint venture at its initial stage (from its establishment to 31 December 2020). As the profit or loss status of the joint venture was loss as of 31 December 2020, the Group has not recognised its share of losses of the joint venture according to the agreement. The investment income shall be recognised according to the shareholding ratio after 31 December 2020.

(ii) According to the agreement signed by both parties. The Company shall not bear the losses of the joint venture at its initial stage (from its establishment to the year that the profit or loss status of the joint venture was profit). As the profit or loss status of the joint venture was loss as of 31 December 2020, the Group has not recognised its share of losses of the joint venture according to the agreement. The investment income shall be recognised according to the shareholding ratio after 31 December 2020.

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2020**<br>**RMB'000** | 2019<br>RMB'000<br>(restated) |
|---|---|---|
| Current portion: | | |
| Unlisted investment, at fair value | **2,671** | – |
| Non-current portion: | | |
| Unlisted investment, at fair value | **–** | 11,792 |

On 29 June 2016, a wholly-owned subsidiary of the Company (the "Subscriber") entered into a subscription agreement, pursuant to which the Subscriber agreed to subscribe for the Class A shares in the Asian Bond Fund Segregated Portfolio (the "Sub-Fund") of CMBI (an exempted segregated portfolio company incorporated in the Cayman Islands with limited liability) for an aggregate consideration of US$1,795,000 (equivalent to approximately RMB11,950,000). The Sub-Fund is a segregated portfolio of a fund (the "Fund") and managed by CMB International Asset Management Limited. The subscription of the Class A shares in the Sub-Fund, representing approximately 8.50% of the total issued Class A shares of the Sub-Fund, was completed on 7 July 2016.

The Fund aims at generating interest income and long term capital appreciation, with at least 70% of its net assets invested in a broad range of fixed income securities and instruments and derivative financial instruments for investment and hedging purposes. Not more than 30% of the Sub-Fund's net assets may be invested in assets not meeting the above requirements.

Shares of the Sub-Fund may be redeemed at a redemption price which equals the net asset value per share as at the valuation date immediately preceding the dealing date. The Sub-Fund may redeem all or some of the shares of the Sub-Fund held by any person if, in the opinion of the directors of the Fund, it is in the interests of the Sub-Fund or when certain conditions are met, at the prevalent redemption price. The price of each share equals the net asset value per share after adjusting for all liabilities accrued or contingent upon the liquidation of the Sub-Fund.

There is no guaranteed nor targeted level of dividend payment from the Sub-Fund. The Sub-Fund may at its full discretion declare none, partial or all of its income accrued or received, realised capital gains and capital of the Sub-Fund to its shareholders.

In 2020 the group disposed of 13,500 shares, which is 76% of the total shares held, and reclassified the remaining 4,377.64 shares from non-current assets to current assets as the management planned to dispose in the near future. As at 31 December 2020, the fair value of the investment in the sub-fund of RMB2,671,000 (31 December 2019: RMB11,792,000) was determined by reference to the quoted price provided by the issuing financial institution (level 2 measurement).

## 19. INVENTORIES

| | **2020**<br>**RMB'000** | 2019<br>RMB'000<br>(restated) |
|---|---|---|
| Raw materials | **7,425** | 11,588 |
| Finished goods | **3,098** | 1,731 |
| | **10,523** | 13,319 |

## 20. TRADE AND OTHER RECEIVABLES

| | 2020 RMB'000 | 2019 RMB'000 (restated) |
|---|---|---|
| Current portion: | | |
| Trade receivables | 955 | 1,731 |
| Less: Allowance for credit losses | (107) | (205) |
| | 848 | 1,526 |
| Deposits, prepayments and other receivables | 6,948 | 3,539 |
| Cash in transit | – | 10,242 |
| Value-added tax recoverable | 6,153 | 11,246 |
| | 13,949 | 26,553 |
| Non-current portion: | | |
| Prepayments | 3,000 | – |
| | 16,949 | 26,553 |

According to the Group's trading terms with its customers, payment in advance is normally required, except for certain customers, where a credit period is allowed. The credit period is generally three months, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The current portion of deposits, prepayments and other receivables mainly represents prepayments and the deposits with suppliers and other parties. The non-current portion of prepayments represent the prepayments related to the acquisition of leasehold land and buildings. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group and are adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The expected losses for the deposits, prepayments and other receivables are immaterial to the Group. The credit quality of the financial assets included in prepayments and other receivables is considered to be normal because they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk.

Cash in transit represents the Company's capital injection to the newly established subsidiary. On 31 December 2019, it was still subject to the approval of State Administration of Foreign Exchange, and the subsidiary has not yet received the payment. The subsidiary received the payment on 2 January 2020.

## 20. TRADE AND OTHER RECEIVABLES (continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

| | **2020 RMB'000** | 2019 RMB'000 (restated) |
|---|---|---|
| Within 1 month | **315** | 1,084 |
| 2 to 3 months | **–** | 84 |
| Over 3 months | **533** | 358 |
| | **848** | 1,526 |

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

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| At beginning of year/period | **205** | 67 |
| Impairment losses, net | **(98)** | 138 |
| At end of year/period | **107** | 205 |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

**As at 31 December 2020**

| | **Current** | **Past due** | **Total** |
|---|---|---|---|
| Expected credit loss rate | **2.76%** | **24.20%** | **11.20%** |
| Gross carrying amount (RMB'000) | **579** | **376** | **955** |
| Expected credit losses (RMB'000) | **16** | **91** | **107** |

**As at 31 December 2019 (restated)**

| | Current | Past due | Total |
|---|---|---|---|
| Expected credit loss rate | 5.46% | 27.46% | 11.84% |
| Gross carrying amount (RMB'000) | 1,228 | 503 | 1,731 |
| Expected credit losses (RMB'000) | 67 | 138 | 205 |

## 21. CONTRACT ASSETS

| | 2020<br>RMB'000 | 2019<br>RMB'000 | 1 April 2019<br>RMB'000 |
|---|---|---|---|
| Contract assets arising from: | | | |
| Consulting services | 4,935 | – | – |
| Impairment | (148) | – | – |
| | 4,787 | – | – |

During the year ended 31 December 2020, RMB148,000 (2019: RMB0) was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 20 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within one year | 4,787 | – |

The movements in the loss allowance for impairment of contract assets are as follows:

| | Year ended<br>31 December<br>2020<br>RMB'000 | Nine months<br>ended<br>31 December<br>2019<br>RMB'000 |
|---|---|---|
| At beginning of year/period | – | – |
| Impairment losses (note 6) | 148 | – |
| At end of year/period | 148 | – |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

| | 2020 | 2019<br>(restated) |
|---|---|---|
| Expected credit loss rate | 3% | – |
| Gross carrying amount (RMB'000) | 4,935 | – |
| Expected credit losses (RMB'000) | 148 | – |

## 22. LOAN AND INTEREST RECEIVABLES

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(restated) |
|---|---|---|
| Loan | – | 8,100 |
| Interest receivables | – | 215 |
| Less: Allowance for credit losses | – | (177) |
| | – | 8,138 |

As at 31 December 2019, the borrowers are private companies incorporated in Hong Kong and independent of the Group. The loans are repayable within one year from the end of the reporting period, secured by personal guarantees from shareholders of the borrowers and carry interest at the fixed rate of 10% per annum. The interest is repayable monthly or quarterly. The management of the Group reviews the recoverable amounts of its loan and interest receivables by assessing the borrowers' financial position.

## 23. OTHER FINANCIAL ASSETS

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(restated) |
|---|---|---|
| Wealth management product | – | 10,000 |

As at the end of the prior period, the above other financial assets was wealth management product with fixed returns and was stated at amortised cost. The product is principal protected. The expected credit loss for the asset measured at amortised cost is immaterial to the Group. As at the end of the 2020, the above other financial assets had been recovered.

## 24. CASH AND CASH EQUIVALENTS

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(restated) |
|---|---|---|
| Cash and bank balances | **86,151** | 65,489 |
| Time deposits | **22,005** | – |
| | **108,156** | 65,489 |

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB68,111,000 (31 December 2019: RMB46,995,300). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the deposit rates of the respective periods. The bank balances are deposited with creditworthy banks or financial institutions with no recent history of default.

## 25. TRADE AND OTHER PAYABLES

| | **2020** **RMB'000** | 2019 RMB'000 (restated) |
|---|---|---|
| Trade payables | **965** | 1,007 |
| Other payables | **408** | 853 |
| Other taxes payable | **2,931** | 1,072 |
| Accrued charges | **7,065** | 5,195 |
| | **11,369** | 8,127 |

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

| | **2020** **RMB'000** | 2019 RMB'000 (restated) |
|---|---|---|
| Within 1 month | **845** | 353 |
| 1 to 2 months | **21** | 653 |
| Over 3 months | **99** | 1 |
| | **965** | 1,007 |

The trade and other payables are non-interest-bearing.

## 26. CONTRACT LIABILITIES

| | **2020** **RMB'000** | 2019 RMB'000 | 1 April 2019 RMB'000 (restated) |
|---|---|---|---|
| Receipt in advance on sales of education equipment | **5,066** | 4,153 | 139 |

The Group receives the prepayments from customers when they sign the purchase agreements which are recognised as contract liabilities at the execution of a contract, until the revenue is recognised on the relevant contracts. The contract liabilities recorded at the beginning of the period had been fully recognised as revenue during the year. The balance as at 31 December 2020 will be recognised as revenue for the year ending 31 December 2021.

## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 (restated) |
| **Current** | | | | | | |
| Lease liabilities (note 14) | **4.75** | **2021** | **790** | 4.75 | 2020 | 905 |
| Bank loans – secured | **2.53–4.58** | **Note** | **36,926** | 4.00 | Note | 44,616 |
| | | | **37,716** | | | 45,521 |
| **Non-current** | | | | | | |
| Lease liabilities (note 14) | **4.75** | **2024** | **1,781** | 4.75 | 2021 | 229 |
| | | | **1,781** | | | 229 |
| Analysed into: | | | | | | |
| Bank loans repayable: | | | | | | |
| On demand | | | **36,926** | | | 44,616 |
| Other borrowings repayable: | | | | | | |
| Within one year | | | **790** | | | 905 |
| In the second year | | | **856** | | | 229 |
| In the third to fifth years, inclusive | | | **925** | | | – |
| | | | **2,571** | | | 1,134 |
| | | | **39,497** | | | 45,750 |

Notes:

(a) The Group's bank loans were secured by the Group's investment properties situated in Hong Kong, which had an aggregate carrying value of RMB135,157,000 at the end of the reporting period (31 December 2019: RMB146,790,000). As at 31 December 2020, the Group had unutilised banking facilities of RMB47,613,000 (31 December 2019: RMB45,000,000).

(b) Except for the secured bank loan of RMB7,586,000 denominated in Hong Kong dollars, accounting for 20.54%, the borrowings of RMB29,340,000 are all in United States dollars.

## 28. DEFERRED TAX

The movements in deferred tax assets and liabilities during the current year and prior period are as follows:

**Deferred tax assets**

| | Lease liabilities RMB'000 | Intangible assets RMB'000 | Impairment loss RMB'000 | Tax losses recognised RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 31 March 2019 and 1 April 2019 (restated) | – | 3,036 | – | – | 3,036 |
| Charged to profit or loss | – | (255) | 51 | 225 | 21 |
| At 31 December 2019 (restated) | – | 2,781 | 51 | 225 | 3,057 |
| Charged to profit or loss | 29 | (339) | 12 | (188) | (486) |
| At 31 December 2020 | 29 | 2,442 | 63 | 37 | 2,571 |

**Deferred tax liabilities**

| | Revaluation of investment properties RMB'000 | Accelerated tax depreciation and tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 31 March 2019 and 1 April 2019 (restated) | 2,200 | 992 | 3,192 |
| Charged to profit or loss | 1,450 | 53 | 1,503 |
| Exchange realignment | – | 47 | 47 |
| At 31 December 2019 (restated) | 3,650 | 1,092 | 4,742 |
| Charged to profit or loss | 2,175 | 3,361 | 5,536 |
| Exchange realignment | – | (84) | (84) |
| At 31 December 2020 | 5,825 | 4,369 | 10,194 |

At 31 December 2020, the Group had unused tax losses of RMB50,603,000 (31 December 2019: RMB43,308,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB41,998,000 (31 December 2019: RMB33,011,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of RMB8,605,000 (31 December 2019: RMB10,297,000) because it is not considered probable that taxation profits will be available. Tax losses amounting to RMB18,091,000 (31 December 2019: RMB19,866,000) may be carried forward indefinitely under current tax regulations in Hong Kong. The remaining balance amounting to RMB32,512,000 (31 December 2019: RMB23,442,000) arising in Mainland China may be carried forward for five years.

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB2,097,000 at 31 December 2020 (2019: Nil).

## 29. SHARE CAPITAL

| | Number of shares '000 | Amount RMB'000 |
|---|---|---|
| Ordinary shares of RMB0.08 each (restated) | | |
| Authorised: | | |
| At 31 March 2019, 31 December 2019 and 31 December 2020 | 20,000,000 | 1,600,000 |
| Issued and fully paid: | | |
| At 31 March 2019, 31 December 2019 and 31 December 2020 | 499,277 | 39,942 |

## 30. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company dated 22 August 2013, a share option scheme (the "Scheme") was approved. The Scheme was adopted on 27 August 2013.

The Scheme was established for the purpose of providing incentives for the contribution of Directors and eligible persons. The Scheme will remain in force for a period of ten years from adoption of the Scheme. The Scheme will expire on 27 August 2023.

Under the Scheme, the directors of the Company may at their discretion grant options to (i) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust, the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate.

Options granted must be taken up within 14 days of the date of grant. The maximum number of shares, in respect of which options may be granted under the Scheme, shall not exceed 10% of the issued share capital of the Company at any point in time, without prior approval from the Company's shareholders. The number of shares issued, and to be issued, in respect of which options granted and may be granted to any individual in any one year, is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders in accordance with the Listing Rules.

## 30. SHARE OPTION SCHEME (continued)

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the directors of the Company (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment except the payment of HK$1 as consideration for a grant of options each time. The exercise price is determined by the directors of the Company and will be not less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

No share option has been granted under the Scheme since its adoption.

## 31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | **2020** | 2019 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests: | | |
| 山東啟華教育科技有限公司 | **49%** | 49% |
| 核建青控開發建設有限公司 | **49%** | 49% |

| | **Year ended 31 December 2020 RMB'000** | Nine months ended 31 December 2019 RMB'000 (restated) |
|---|---|---|
| Profit for the year/period allocated to non-controlling interests: | | |
| 山東啟華教育科技有限公司 | **1,926** | (125) |
| 核建青控開發建設有限公司 | **(152)** | – |
| Accumulated balances of non-controlling interests at the reporting date: | | |
| 山東啟華教育科技有限公司 | **32,779** | 30,853 |
| 核建青控開發建設有限公司 | **33,679** | – |

## 31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

| **2020** | **山東啟華教育科技有限公司 RMB'000** | **核建青控開發建設有限公司 RMB'000** |
|---|---|---|
| Revenue | **34,065** | **4,655** |
| Total expenses | **30,134** | **4,965** |
| Profit/(loss) for the year | **3,931** | **(310)** |
| Current assets | **55,517** | **42,963** |
| Non-current assets | **20,851** | **3,674** |
| Current liabilities | **(9,473)** | **(1,136)** |
| Non-current liabilities | **–** | **(1,781)** |
| Net cash flows from/(used in) operating activities | **11,712** | **(5,099)** |
| Net cash flows from/(used in) investing activities | **7,010** | **(1,134)** |
| Net cash flows (used in)/from financing activities | **(1,171)** | **43,178** |
| Net increase in cash and cash equivalents | **17,551** | **36,945** |

| 2019 (restated) | 山東啟華教育科技有限公司 RMB'000 | 核建青控開發建設有限公司 RMB'000 |
|---|---|---|
| Revenue | 18,650 | – |
| Total expenses | 18,905 | – |
| Loss for the period | (255) | – |
| Current assets | 46,714 | – |
| Non-current assets | 24,379 | – |
| Current liabilities | (7,897) | – |
| Non-current liabilities | (230) | – |
| Net cash flows from operating activities | 17,933 | – |
| Net cash flows used in investing activities | (9,538) | – |
| Net cash flows used in financing activities | (645) | – |
| Net increase in cash and cash equivalents | 7,750 | – |

## 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB3,299,000 (2019: Nil) and RMB3,299,000 (2019: Nil), respectively, in respect of lease arrangements for properties.

### (b) Changes in liabilities arising from financing activities

| | Interest payable RMB'000 | Interest-bearing bank and other borrowings RMB'000 | Loan from and amount due to the ultimate holding company RMB'000 | Loan from and amount due to an intermediate holding company RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 April 2019 (restated) | – | 1,696 | 347,585 | 33,906 | 383,187 |
| Changes from financing cash flows | – | 43,203 | (16,067) | (35,807) | (8,671) |
| Interest expenses | 699 | 37 | 12,482 | 477 | 13,695 |
| Exchange realignment | 12 | 814 | – | 1,424 | 2,250 |
| At 31 December 2019 (restated) | 711 | 45,750 | 344,000 | – | 390,461 |
| At 1 January 2020 (restated) | 711 | 45,750 | 344,000 | – | 390,461 |
| Changes from financing cash flows | (687) | (8,467) | 83,489 | – | 74,335 |
| New leases | – | 3,299 | – | – | 3,299 |
| Interest expenses | – | 1,625 | 16,611 | – | 18,236 |
| Exchange realignment | (24) | (2,710) | – | – | (2,734) |
| At 31 December 2020 | – | 39,497 | 444,100 | – | 483,597 |

### (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

| | **2020 RMB'000** | 2019 RMB'000 (restated) |
|---|---|---|
| Within operating activities | **(123)** | (270) |
| Within financing activities | **(2,021)** | (600) |
| | **(2,144)** | (870) |

## 33. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

## 34. PLEDGE OF ASSETS

As at 31 December 2020, the Group pledged certain of its investment properties with market value of RMB135,157,000 (31 December 2019: RMB146,790,000) to a bank in Hong Kong to obtain mortgage bank loans in Hong Kong of approximately RMB36,597,000 (31 December 2019: RMB44,616,000). As at 31 December 2020, the group had unutilised banking facilities of RMB47,613,000 (31 December 2019: the Group had unutilised banking facilities of RMB45,000,000).

## 35. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000<br>(restated) |
|---|---|---|
| Contracted, but not provided for: | | |
| Leasehold land and buildings | **19,999** | – |
| Capital contributions payable to joint ventures | **8,900** | – |
| | **28,899** | – |

## 36. RELATED PARTY DISCLOSURES

(a) As at 31 December 2020, a RMB-denominated loan from the ultimate holding company of RMB344,000,000 (31 December 2019: RMB344,000,000) still existed with the maturity date of 31 December 2022. The loan is unsecured and bears interest at a fixed rate of 4.75% per annum. The Company has recognised an interest expense on the loan amounting to RMB16,612,000 for the year ended 31 December 2020 (nine months ended 31 December 2019: RMB12,482,000).

(b) At 7 May 2020, Qingdao Qifeng Technology Services Co., Ltd.* ("Qifeng", an indirect wholly-owned subsidiary of the Company), Qingdao Urban Rural Construction Micro-credit Loan Co. Ltd.* ("QURC Micro-credit Loan Company") and Huizhou Jiuyu Real Estate Company Limited* ("Huizhou Jiuyu", a joint venture of the Group) entered into an entrusted loan arrangement, pursuant to which QURC Micro-credit Loan Company, acting as the lending agent, will release a loan in the principal amount of RMB195,100,000, which will be funded by Qifeng, to Huizhou Jiuyu, with a loan term of 2 years in accordance with the terms of the entrusted loan contract. As at 31 December 2020, a RMB-denominated loan was provided to Huizhou Jiuyu of RMB126,100,000 and bears interest at a fixed rate of 15% per annum. The Company has recognised interest income on the loan amounting to RMB1,201,000 for year ended 31 December 2020, and the outstanding balance of interest receivable due to Huizhou Jinyu was RMB1,273,000 as at 31 December 2020. Pursuant to the Entrusted Loan Contract, the loan is guaranteed by the leasehold land and buildings owned by Huizhou Jiuyu and an interest in Huizhou Yanlong Land Company Limited* ("Huizhou Yanlong", the parent company of Huizhou Jiuyu) owned by Huizhou Meile Land Company Limited.

As at 31 December 2020, the expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group and are adjusted to reflect the current condition as appropriate. The loss rate applied at 31 December 2020 was 0.01%.

## 36. RELATED PARTY DISCLOSURES (continued)

(b) (continued)

Qingdao City Construction Investment (Group) Limited* ("QCCIG"), the ultimate controlling shareholder of the Company, entered into the loan agreement with Qifeng on the same day, pursuant to which, QCCIG has agreed to provide, upon Qifeng's request, an unsecured loan of RMB182,000,000 to Qifeng. Such loan will be available for drawdown by Qifeng in accordance with Qifeng's actual needs within two years from the first drawdown under the loan agreement at an interest rate of 3.85% per annum. The Group intends to use the loan provided by QCCIG to fund the entrusted loan to be made to Huizhou Jiuyu. As at 31 December 2020, a new RMB-denominated loan from the ultimate holding company of RMB100,100,000 was unsecured and bears interest at a fixed rate of 3.85% per annum.

(c) During the nine months ended 31 December 2019, a United States dollar ("US$") denominated loan from an intermediate holding company of US$5,000,000 was unsecured, bore interest at a fixed rate of 4.30% per annum and was repayable on 25 July 2019. The Company has recognised an interest expense on the loan amounting to US$69,000 (equivalent to RMB482,000) for the nine months ended 31 December 2019.

(d) The Group has leased one of its commercial properties in Hong Kong under an operating lease agreement to an intermediate holding company, China Qingdao Development (Holdings) Group Company Limited. The initial lease period is from 1 June 2019 to 31 May 2020, and renewed to extend the maturity date to 31 May 2021. The Group has recognised rental income of RMB243,000 for the year ended 31 December 2020 (nine months ended 31 December 2019: RMB102,000), and the outstanding balances due to the intermediate holding company of RMB20,000 and RMB20,000 which are included in rental deposits from tenants and trade and other payables in the consolidated statement of financial position as at the end of the reporting period respectively are unsecured, interest-free and have no fixed terms of repayment.

(e) Compensation of key management personnel of the group:

| | **2020**<br>**RMB'000** | Nine months ended 31 December 2019<br>RMB'000<br>(restated) |
|---|---|---|
| Short-term benefits | **960** | 803 |

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

* *For identification purposes only*

## 37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**Financial assets**

***31 December 2020***

| | **Financial assets at fair value through profit or loss mandatorily designated as such RMB'000** | **Financial assets at amortised cost RMB'000** | **Total RMB'000** |
|---|---|---|---|
| Trade receivables | **–** | **848** | **848** |
| Financial assets included in other receivables | **–** | **1,042** | **1,042** |
| Financial assets at fair value through profit or loss | **2,671** | **–** | **2,671** |
| Amount due from a joint venture | **–** | **127,358** | **127,358** |
| Cash and cash equivalents | **–** | **108,156** | **108,156** |
| | **2,671** | **237,404** | **240,075** |

***31 December 2019 (restated)***

| | Financial assets at fair value through profit or loss mandatorily designated as such RMB'000 | Financial assets at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|
| Trade receivables | – | 1,526 | 1,526 |
| Financial assets included in other receivables | – | 172 | 172 |
| Other financial assets | – | 10,000 | 10,000 |
| Financial assets at fair value through profit or loss | 11,792 | – | 11,792 |
| Loan and interest receivables | – | 8,138 | 8,138 |
| Cash and cash equivalents | – | 65,489 | 65,489 |
| | 11,792 | 85,325 | 97,117 |

## 37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

**Financial liabilities**

***31 December 2020***

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Trade payables | **965** |
| Financial liabilities included in other payables | **1,015** |
| Interest-bearing bank and other borrowings | **39,497** |
| Loan from the ultimate holding company | **444,100** |
| | **485,577** |

***31 December 2019 (restated)***

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Trade payables | 1,007 |
| Financial liabilities included in other payables | 1,570 |
| Interest-bearing bank and other borrowings | 45,750 |
| Loan from the ultimate holding company | 344,000 |
| | 392,327 |

## 38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 (restated) | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 (restated) |
| **Financial assets** | | | | |
| Amount due from a joint venture | **126,085** | – | **126,085** | – |
| Financial assets at fair value through profit or loss | **2,671** | 11,792 | **2,671** | 11,792 |
| | **128,756** | 11,792 | **128,756** | 11,792 |

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 (restated) | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 (restated) |
| **Financial liabilities** | | | | |
| Interest-bearing bank borrowings | **36,926** | 44,616 | **36,926** | 44,616 |
| Loan from and amount due to the ultimate holding company | **444,100** | 344,000 | **444,100** | 344,000 |
| | **481,026** | 388,616 | **481,026** | 388,616 |

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in other receivables, loan and interest receivables, trade payables and financial liabilities included in other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank borrowings and loan from and amount due to the ultimate holding company have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for the interest-bearing bank borrowings and loan from and amount due to the ultimate holding company as at 31 December 2020 were assessed to be insignificant.

## 38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The Group invests in wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group also invests in an unlisted investment issued by a financial institution in Hong Kong, the fair value of which was determined with reference to the quoted price provided by the issuing financial institution.

**Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

***Assets measured at fair value:***

*As at 31 December 2020*

| | **Fair value measurement using** | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1) RMB'000** | **Significant observable inputs (Level 2) RMB'000** | **Significant unobservable inputs (Level 3) RMB'000** | **Total RMB'000** |
| Financial assets at fair value through profit or loss | **–** | **2,671** | **–** | **2,671** |

*As at 31 December 2019 (restated)*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Financial assets at fair value through profit or loss | – | 11,792 | – | 11,792 |

***Liabilities measured at fair values:***

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 31 December 2019. During the current year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (nine months ended 31 December 2019: Nil).

## 38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

**Fair value hierarchy (continued)**

***Liabilities for which fair values are disclosed:***

*As at 31 December 2020*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1) RMB'000** | **Significant observable inputs (Level 2) RMB'000** | **Significant unobservable inputs (Level 3) RMB'000** | **Total RMB'000** |
| Interest-bearing bank borrowings | **–** | **36,926** | **–** | **36,926** |
| Loan from the ultimate holding company | **–** | **444,100** | **–** | **444,100** |
| | **–** | **481,026** | **–** | **481,026** |

*As at 31 December 2019 (restated)*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Interest-bearing bank borrowings | – | 44,616 | – | 44,616 |
| Loan from the ultimate holding company | – | 344,000 | – | 344,000 |
| | – | 388,616 | – | 388,616 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade and other receivables, loan and interest receivables, financial assets at fair value through profit or loss, other financial assets, cash and cash equivalents, trade and other payables, interest-bearing bank and other borrowings and amounts due to the ultimate holding company and loans from the ultimate holding company. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are foreign currency risk, other price risk, interest rate risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks and they are summarised below.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Foreign currency risk**

The Group's businesses are principally conducted in Hong Kong dollars ("HK$") for group entities with operation in Hong Kong and RMB for group entities with operation in both Hong Kong and Mainland China, the functional currencies of which are HK$ and RMB, respectively. The Group currently does not have a currency hedging policy. However, management monitors foreign currency exposure and will consider hedging significant currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ and US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

| | **Increase/ (decrease) in HK$/US$ rate** | **Increase/ (decrease) in profit before tax** | **Increase/ (decrease) in equity*** |
|---|---|---|---|
| | % | RMB'000 | RMB'000 |
| Year ended 31 December 2020 | | | |
| If the RMB weakens against HK$ | 5 | (370) | 6,152 |
| If the RMB strengthens against HK$ | (5) | 370 | (6,152) |
| If the RMB weakens against US$ | 5 | (1,433) | – |
| If the RMB strengthens against US$ | (5) | 1,433 | – |
| Nine months ended 31 December 2019 (restated) | | | |
| If the RMB weakens against HK$ | 5 | 9,574 | – |
| If the RMB strengthens against HK$ | (5) | (9,574) | – |
| If the RMB weakens against US$ | 5 | (1,695) | – |
| If the RMB strengthens against US$ | (5) | 1,695 | – |

* Excluding retained profits

**Other price risk**

The Group is exposed to equity price risk through its investment in financial assets at fair value through profit or loss (note 18). The Group does not have a formal policy to manage its price risk arising from its investment in the financial asset.

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date.

With all other variables held constant, if the quoted price of the financial assets at fair value through profit or loss measured at fair value had been 10% higher/lower than the actual closing price as at the period end, the post-tax profit for the year ended 31 December 2020 would increase/decrease by approximately RMB267,100 (nine months ended 31 December 2019: RMB1,179,200).

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

| | **Increase/ (decrease) in basis points** | **Increase/ (decrease) in profit before tax** RMB'000 |
|---|---|---|
| Year ended 31 December 2020 | | |
| Hong Kong dollar | 100 | (76) |
| Hong Kong dollar | (100) | 76 |
| United States dollar | 100 | (290) |
| United States dollar | (100) | 290 |
| Nine months ended 31 December 2019 (restated) | | |
| Hong Kong dollar | 100 | (90) |
| Hong Kong dollar | (100) | 90 |
| United States dollar | 100 | (356) |
| United States dollar | (100) | 356 |

**Credit risk**

The carrying amounts of cash and cash equivalents, trade receivables, loan and interest receivables, financial assets included in other receivables, financial assets at fair value through profit or loss and other financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in Hong Kong and Mainland China, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments, and they were all classified within stage 1 as at 31 December 2020, which is mainly based on past due information unless other information is available without undue cost or effort.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables and loan and interest receivables are respectively disclosed in notes 20 and note 22 to the financial statements.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, loans from and amounts due to the ultimate holding company and an intermediate holding company, lease liabilities and other interest-bearing loans. 1% of the Group's debts would mature in less than one year as at 31 December 2020 (31 December 2019: 4%) based on the carrying value of borrowings reflected in the financial statements.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. It is the Group's policy to renew its loan agreements with the ultimate holding company, or major banks upon the maturity of the Group's short and long term borrowings when funding is needed.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

***31 December 2020***

| | **On demand or no fixed terms of repayment RMB'000** | **Within one year RMB'000** | **Over one year RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| Trade and other payables | **1,980** | **–** | **–** | **1,980** |
| Interest-bearing bank and other borrowings | **36,926** | **876** | **1,831** | **36,633** |
| Loan from and amount due to the ultimate holding company | **–** | **20,194** | **464,230** | **484,424** |
| | **38,906** | **21,070** | **466,061** | **526,037** |

***31 December 2019 (restated)***

| | On demand or no fixed terms of repayment RMB'000 | Within one year RMB'000 | Over one year RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Trade and other payables | 2,577 | – | – | 2,577 |
| Interest-bearing bank and other borrowings | 44,616 | 1,011 | 266 | 45,893 |
| Loan from and amount due to the ultimate holding company | – | 16,339 | 376,680 | 393,019 |
| | 47,193 | 17,350 | 376,946 | 441,489 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Capital management**

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

The capital structure of the Group consists of net debt, which includes trade and other payables, interest-bearing bank borrowings, and loans from and amount due to the ultimate holding company, net of cash and cash equivalents and equity attributable to owners of the parent, comprising issued share capital and reserves. The gearing ratios as at the end of the reporting periods were as follows:

| | **2020**<br>**RMB'000** | 2019<br>RMB'000 |
|---|---|---|
| Trade and other payables | **1,980** | 2,577 |
| Interest-bearing bank and other borrowings | **39,497** | 45,750 |
| Loan from the ultimate holding company | **444,100** | 344,000 |
| Less: Cash and cash equivalents | **(108,156)** | (65,489) |
| Net debt | **377,421** | 326,838 |
| Total equity | **288,535** | 262,983 |
| Gearing ratio | **57%** | 55% |

## 40. EVENTS AFTER THE REPORTING PERIOD

(a) On 17 March 2021, Yangfan (Holdings) Group Limited (the Purchaser, an indirect wholly owned subsidiary of the Company) and CQDHG (the Vendor) entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Target Equity Interest, being approximately 81.91% of the equity interest in the Qingdao Rural Construction Financial Leasing Company Limited (the Target Company), at a consideration of approximately RMB1,982.3 million (approximately HK$2,378.7 million). The consideration in respect of the Acquisition (the "Consideration") shall be satisfied as follows: (i) approximately RMB128.8 million (approximately HK$154.5 million) shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon Completion; and (ii) approximately RMB1,853.5 million (approximately HK$2,224.2 million) shall be payable by the issue of the convertible bonds ("Consideration CB") by the Company to the Vendor (or its nominee(s)) upon completion of the Acquisition. Further details of this transaction are set out in the Company's announcement dated 17 March 2021.

Upon Completion, the Company will issue the Consideration CB in the principal amount of approximately RMB1,853.5 million (approximately HK$2,224.2 million) at nil coupon rate to the Vendor (or its nominee(s)) to settle part of the Consideration. The Initial Conversion Price is approximately RMB1.56 (HK$1.87) per Conversion Share, subject to the adjustment mechanism as set out in the instrument of the Consideration CB.

In order to raise sufficient funds to settle part of the Consideration and to finance the associated transaction expenses relating to the Acquisition, the Board proposed the offer of new Shares (the "Rights Issue") on the basis of one (1) new Share to be allotted in respect of the Rights Issue (the "Rights Share") for everyone (1) existing Share. The Rights Issue Subscription is approximately RMB0.33 (HK$0.39) per Rights Share. The Number of Rights Shares is up to 499,276,680 Rights Shares.

(b) 核建青控開發建設有限公司 (the Purchaser, a non wholly-owned subsidiary of the Company) was notified on 12 March 2021 that it has won the bid to acquire 95% equity interest in the Bengbu City Huai Yi Construction and Development Ltd (the Target Company) in a public listing-for-sale process organised by the Bengbu City Assets and Equity Exchange Center. The consideration for the Acquisition is RMB37,564,000. Upon completion of the Acquisition, the Purchaser and Bengbu City Bin He Construction and Investment Limited (the Vendor, a limited liability company established in the PRC and an independent third party)will hold 95% and 5% equity interest in the Target Company, respectively and the Target Company will become an indirect non wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial results of the Group. Further details of this transaction are set out in the Company's announcement dated 15 March 2021.

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | **31 December 2020 RMB'000** | 31 December 2019 RMB'000 (restated) |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | **16** | 17 |
| Interests in subsidiaries | **269,058** | 283,059 |
| Total non-current assets | **269,074** | 283,076 |
| CURRENT ASSETS | | |
| Other receivables | **11** | 12 |
| Cash and cash equivalents | **357** | 2,075 |
| Total current assets | **368** | 2,087 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **4,216** | 2,987 |
| Amounts due to subsidiaries | **90,965** | 86,641 |
| Interest-bearing bank and other borrowings | **36,597** | 44,616 |
| Total current liabilities | **131,778** | 134,244 |
| NET CURRENT LIABILITIES | **(131,410)** | (132,157) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **137,664** | 150,919 |
| Net assets | **137,664** | 150,919 |
| EQUITY | | |
| Share capital | **39,942** | 39,942 |
| Reserves (note) | **97,722** | 110,977 |
| Total equity | **137,664** | 150,919 |

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

| | Contributed surplus RMB'000 | Translation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 April 2019 (restated) | 503,367 | 314 | (395,624) | 108,057 |
| Profit and total comprehensive income for the period | – | – | 2,920 | 2,920 |
| At 31 December 2019 and 1 January 2020 (restated) | 503,367 | 314 | (392,704) | 110,977 |
| Loss and total comprehensive loss for the year | – | – | (13,255) | (13,255) |
| At 31 December 2020 | 503,367 | 314 | (405,959) | 97,722 |

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of a former subsidiary at the date on which the Group reorganisation became effective and the nominal amount of the share capital of the Company issued under a previous group reorganisation in 1997.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) The Company is, or would after the payment be unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts (if any).

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.

# SCHEDULE OF PRINCIPAL PROPERTIES

| Location | Approximate gross floor area (sq. ft.) | Use | Term of lease | Group's ownership |
|---|---|---|---|---|
| **INVESTMENT PROPERTIES** | | | | |
| Flat E on 13th Floor, Hing On Mansion, On Shing Terrace, No. 5 Tai Yue Avenue, Taikoo Shing, Hong Kong | 678 | Residential | Medium-term lease | 100% |
| Workshop Unit Nos. 03 to 07 on 9th Floor, Harbour Centre Tower 1, No. 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong | 16,225 | Industrial and commercial | Medium-term to long lease | 100% |
| Office Unit No. 1805, 18th Floor, Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong | 1,554 | Commercial | Medium-term lease | 100% |
| All office units on 4th Floor to 6th Floor and 12th Floor to 21st Floor and car parking spaces, "22nd Century Plaza", No. 39 Long Cheng Road, Shibei District, Qingdao City, Shandong Province, Mainland China | 179,908 | Commercial | Long lease | 100% |