



偉俊生物科技有限公司
Wai Chun Bio-Technology Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code : 0660)

Second
Interim Report *2021*

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Lam Ching Kui
(*Chairman and Chief Executive Officer*)

Independent Non-Executive Directors

Chan Cheuk Ho
Wan Bo
Hau Pak Man

AUTHORISED REPRESENTATIVES

Lam Ching Kui
Fenn David (appointed on 4 February 2022)
Tse Ho Lun Robin (appointed on
5 November 2021 and resigned on
4 February 2022)
Ng Chun Pang (appointed on 5 May 2021
and resigned on 10 May 2021)
Chiu Chun Tak (resigned on 30 April 2021)

COMPANY SECRETARY

Fenn David (appointed on 4 February 2022)
Tse Ho Lun Robin (appointed on
5 November 2021 and resigned on
4 February 2022)
Ng Chun Pang (appointed on 5 May 2021
and resigned on 10 May 2021)
Chiu Chun Tak (resigned on 30 April 2021)

AUDIT COMMITTEE

Chan Cheuk Ho (*Chairman*)
Wan Bo
Hau Pak Man

REMUNERATION COMMITTEE

Hau Pak Man (*Chairman*)
Lam Ching Kui
Chan Cheuk Ho
Wan Bo

NOMINATION COMMITTEE

Lam Ching Kui (*Chairman*)
Chan Cheuk Ho
Wan Bo
Hau Pak Man

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

13/F., Admiralty Centre 2
18 Harcourt Road
Admiralty
Hong Kong

AUDITOR

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
23rd Floor, Tower 2
Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay
Kowloon

SHARE REGISTRAR IN HONG KONG

Union Registrars Limited
Room 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

PRINCIPAL BANKER

Hang Seng Bank Limited

STOCK CODE

Hong Kong Stock Exchange: 0660

COMPANY WEBSITE

<http://www.0660.hk>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financial Performance

For the twelve months ended 31 December 2021, the Group recorded a revenue of approximately HK\$495,377,000 (year ended 31 December 2020: approximately HK\$567,553,000), representing a decrease of 12.7% as compared with the corresponding period in last year. The Group recorded a gross profit and gross profit margin of approximately HK\$37,577,000 and 7.6% respectively for the twelve months ended 31 December 2021, representing a decrease of approximately HK\$11,353,000 and a decrease of 1.0% respectively as compared with the gross profit of approximately HK\$48,930,000 and gross profit margin of 8.6% for the year ended 31 December 2020. Such decrease in gross profit was mainly due to the decrease of sales of modified starch and other biochemical products during the period because of relapse of COVID-19 in Mainland China in the second half year of 2021.

Administrative expenses decreased by 2.4% from approximately HK\$25,519,000 for the year ended 31 December 2020 to approximately HK\$24,900,000 for the twelve months ended 31 December 2021. Selling expenses recorded a decrease of 2.2% from approximately HK\$12,179,000 for the year ended 31 December 2020 to approximately HK\$11,910,000 for the twelve months ended 31 December 2021.

Loss attributable to owners of the Company amounting to approximately HK\$17,027,000 for the twelve months ended 31 December 2021 as compared with loss of approximately HK\$8,149,000 for the corresponding period in last year. The increase in loss was mainly due to the decrease in sales and the increase in interest expense of the convertible bonds of approximately HK\$7,498,000.

Financial Resources and Position

As at 31 December 2021, the Group had net current liabilities of approximately HK\$62,513,000 (31 December 2020: approximately HK\$59,742,000) and cash and cash equivalents of approximately HK\$4,644,000 (31 December 2020: approximately HK\$5,446,000).

As at 31 December 2021, the current ratio of the Group was approximately 0.60 times (31 December 2020: approximately 0.60 times). The net debts (net of cash and cash equivalents) to total assets ratio of the Group was approximately 76.6% (31 December 2020: approximately 66.0%).

MANAGEMENT DISCUSSION AND ANALYSIS

During the twelve months ended 31 December 2021, the Group financed its operations mainly by internally generated resources and borrowings which include bank loans, loans from ultimate holding company and loans from the controlling shareholder and convertible bonds. The Group's cash and cash equivalents are mainly denominated in Hong Kong Dollars, Renminbi and United States Dollars. The Group conducted its business transactions principally in Renminbi and United States Dollars. The Group has not experienced any material difficulties or negative impact on its operations as a result of fluctuations in currency exchanges rates.

BUSINESS REVIEW AND OUTLOOK

During the period under review, the Group continued to engage in the manufacture and sale of modified starch and other biochemical products and general trading.

During the period under review, the business of manufacture and sales of modified starch and biochemical products recorded segment profit of approximately HK\$13,989,000 (year ended 31 December 2020: segment profit of approximately HK\$22,670,000).

The Group will continue to pursue strategic acquisitions that can enable the Company to capture new business opportunities in the People's Republic of China (the "PRC") market and to strengthen the revenue and profit fundamentals. The Company has been actively identifying projects with growth potential for acquisitions or investments and has been in discussions with various parties for such acquisitions or investments.

In order to ensure the Group's financial ability to operate as a going concern, the Directors of the Company have been implementing various measures including the provision of loan facilities by the ultimate holding company, conducting negotiation with potential investors to raise sufficient funds; and will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

INTERIM DIVIDEND

The Board resolved not to declare any second interim dividend for the twelve months ended 31 December 2021 (year ended 31 December 2020: Nil).

OTHER INFORMATION

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

As at 31 December 2021, the beneficial interests of the Directors and chief executive in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions) which they are taken or deemed to have taken under such provisions of the SFO and pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules, were as follows:

Long Positions

| Ordinary shares of HK\$0.025 each | | | | |
|-----------------------------------|--|----------------------------------|---|---|
| Name of Director | Capacity | Long position/ Short position | Number of shares/ underlying shares held | Approximate percentage of issued share capital |
| Mr. Lam Ching Kui | Beneficial owner | Long position | 28,004,000 | 1.67% |
| Mr. Lam Ching Kui | Interest of controlled corporations | Long position | 811,502,432 (Note) | 48.28% |

Note: Mr. Lam Ching Kui is the beneficial owner of Wai Chun Investment Fund which is deemed to be interested in 811,502,432 shares.

Other than as disclosed above, as at 31 December 2021, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register of interests required to be kept by the Company under Section 352 of the SFO.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of Directors and chief executive, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long Positions

| Name of shareholder | Capacity | Ordinary shares of HK\$0.025 each | |
|--|---|--|--|
| | | Number of shares/ underlying shares held | Approximate percentage of issued share capital |
| Lam Ching Kui | Beneficial owner (Note 1) | 28,004,000 | 1.67% |
| Lam Ching Kui | Interests of controlled corporations (Note 1) | 811,502,432 | 48.28% |
| Wai Chun Investment Fund | Interest of controlled corporation (Note 1) | 811,502,432 | 48.28% |
| Chinese Success Limited ("Chinese Success") (Note 1) | Beneficial owner | 811,502,432 | 48.28% |
| Wan Yuzhen (Note 2) | Interest of controlled corporation | 131,056,000 | 7.80% |
| Onward Global Investments Limited ("Onward Global") (Note 2) | Beneficial owner | 131,056,000 | 7.80% |
| Chen Guanyu (Note 3) | Beneficial owner | 9,300,000 | 0.55% |
| Chen Guanyu | Interest of controlled corporation | 82,246,000 | 4.89% |
| Spring Garden Investments Limited ("Spring Garden") (Note 3) | Beneficial owner | 82,246,000 | 4.89% |
| Mai Xiuqun (Note 4) | Interest of controlled corporation | 141,270,400 | 8.41% |

OTHER INFORMATION

Ordinary shares of HK\$0.025 each

| Name of shareholder | Capacity | Number of shares/ underlying shares held | Approximate percentage of issued share capital |
|--|------------------------------------|--|--|
| Fair Concourse Limited ("Fair Concourse") (Note 4) | Beneficial owner | 141,270,400 | 8.41% |
| Wan Qianyi (Note 5) | Interest of controlled corporation | 101,723,370 | 6.05% |
| South Bright Holdings Limited ("South Bright") (Note 5) | Beneficial owner | 101,723,370 | 6.05% |

Notes:

- (1) Chinese Success, which is wholly owned by Wai Chun Investment Fund, holds 811,502,432 shares of the Company. Mr. Lam Ching Kui, the Chairman and Executive Director of the Company, directly holds 28,004,000 shares and is the beneficial owner of the entire issued share capital of Wai Chun Investment Fund. Mr. Lam Ching Kui is the director of Chinese Success and Wai Chun Investment Fund.

On 22 October 2021, the Company entered into a subscription agreement with Chinese Success for the subscription of convertible bonds to be issued by the Company in the principal amount of HK\$21,000,000 under a specific mandate to be obtained from independent shareholders of the Company at a general meeting of the Company. The specific mandate for the issue of the convertible bonds was granted to the Company in an extraordinary general meeting held on 31 December 2021.

- (2) These 131,056,000 shares of the Company were held by Onward Global which is wholly owned by Wan Yuzhen. For the purpose of SFO, Wan Yuzhen is deemed to be interested in these 131,056,000 shares held by Onward Global.
- (3) The 82,246,000 shares of the Company were held by Spring Garden which is wholly owned by Chen Guanyu. For the purpose of SFO, Chen Guanyu is deemed to be interested in these 82,246,000 shares held by Spring Garden. Chen Guanyu also directly holds 9,300,000 shares of the Company.

Chen Guanyu has 16,270,685 share options under the share option scheme of the Company, representing approximately 0.97% of the existing issued share capital of the Company. The exercise period of the options is 5 years from the date of grant of the options, i.e. from 16 July 2018 to 15 July 2023.

OTHER INFORMATION

- (4) The 141,270,400 shares of the Company were held by Fair Concourse Limited which is wholly owned by Mai Xiu Qun. For the purpose of SFO, Mai Xiu Qun is deemed to be interested in these 141,270,400 shares held by Fair Concourse.
- (5) The 101,723,370 shares of the Company were held by South Bright Holdings Limited which is wholly owned by Wan Qian Yi. For the purpose of SFO, Wan Qian Yi is deemed to be interested in these 101,723,370 shares held by South Bright.

Save for the shareholders as disclosed herein, the Directors and the chief executive of the Company are not aware of any persons who, as at 31 December 2021, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHARE OPTION SCHEME

A share option scheme was adopted by the Company on 22 July 2015 (“Share Option Scheme”). Particulars of the Share Option Scheme and movements of the Company’s share options during the period are set out in note 18 to the condensed consolidated financial statements.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The remuneration committee of the Company, having regard to the Company’s operating results, individual performance and comparable market statistics, decides the emoluments of the executive Director(s) and senior management. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the twelve months ended 31 December 2021 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of shares in, or debt securities, including debentures, of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the twelve months ended 31 December 2021.

OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code during the twelve months ended 31 December 2021.

CORPORATE GOVERNANCE

The Company has adopted the code provisions of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. During the twelve months ended 31 December 2021, the Company has complied with the relevant code provisions set out in the CG Code except for the deviation from code provision A.2.1, which is explained below.

Code provision A.2.1 provides that the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of the chairman and chief executive officer. Mr. Lam Ching Kui is the chairman and chief executive officer of the Company. He has extensive experience in project management and securities investments and is responsible for the overall corporate strategies, planning and business development of the Group. The balance of power and authorities are ensured by the operation of the Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive directors.

CHANGES IN DIRECTORS’ INFORMATION

Save as disclosed below, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the period under review and up to the date of this second interim report:

| Name of Directors | Details of changes |
|--|---|
| Mr. Chan Cheuk Ho <i>(independent non-executive Director)</i> | Appointed as an independent non-executive director of EPS Creative Health Technology Group Limited, a company listed on the Stock Exchange (Stock Code: 3860), with effect from 9 July 2021 |

OTHER INFORMATION

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The terms of reference of the Audit Committee is currently made available on the Stock Exchange's website and the Company's website.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system (including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget) and the internal control procedures.

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Chan Cheuk Ho (Chairman), Mr. Wan Bo and Mr. Hau Pak Man. The Audit Committee have reviewed the unaudited second interim financial results of the Group for the twelve months ended 31 December 2021.

On behalf of the Board

Wai Chun Bio-Technology Limited

Lam Ching Kui

Chairman and Chief Executive Officer

Hong Kong, 28 February 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the twelve months ended 31 December 2021

| | | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|--|---|--|--|
| Revenue | 4 | 495,377 | 567,553 |
| Cost of sales | | (457,800) | (518,623) |
| Gross profit | | 37,577 | 48,930 |
| Other revenue and other gains and losses, net | | (228) | (122) |
| Selling expenses | | (11,910) | (12,179) |
| Administrative expenses | | (24,900) | (25,519) |
| Reversal of impairment losses/ (impairment losses) on trade and other receivables, net | | 1,085 | (1,584) |
| Finance costs | | (12,824) | (7,915) |
| (Loss) profit before tax | | (11,200) | 1,611 |
| Income tax expense | 5 | (1,447) | (616) |
| (Loss) profit for the period/year | 6 | (12,647) | 995 |
| (Loss) profit for the period/year attributable to: | | | |
| – Owners of the Company | | (17,027) | (8,149) |
| – Non-controlling interests | | 4,380 | 9,144 |
| | | (12,647) | 995 |
| Loss per share | 8 | HK cents | HK cents |
| – Basic and diluted | | (1.02) | (0.49) |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the twelve months ended 31 December 2021

| | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|--|--|--|
| (Loss) profit for the period/year | (12,647) | 995 |
| Other comprehensive income: | | |
| <i>Item that may be reclassified to profit or loss:</i> | | |
| Exchange differences on translating foreign operations | 1,838 | 3,207 |
| Other comprehensive income, net of tax | 1,838 | 3,207 |
| Total comprehensive (expense) income for the period/year | (10,809) | 4,202 |
| Total comprehensive (expense) income for the period/year attributable to: | | |
| – Owners of the Company | (16,090) | (6,513) |
| – Non-controlling interests | 5,281 | 10,715 |
| | (10,809) | 4,202 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

| | | 31 December 2021 | 31 December 2020 |
|--|------|-----------------------------|---------------------|
| | Note | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Audited) |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 58,711 | 61,093 |
| Right-of-use assets | 10 | 33,712 | 36,981 |
| | | 92,423 | 98,074 |
| Current assets | | | |
| Inventories | | 48,777 | 52,291 |
| Trade and bills receivables | 11 | 19,827 | 13,769 |
| Deposits, prepayments and other receivables | | 20,656 | 18,728 |
| Tax refundable | | 13 | 13 |
| Bank balances and cash | | 4,644 | 5,446 |
| | | 93,917 | 90,247 |
| Current liabilities | | | |
| Trade payables | 12 | 39,944 | 43,192 |
| Accruals and other payables | | 21,016 | 25,058 |
| Contract liabilities | | 1,788 | 3,260 |
| Borrowings | 13 | 85,016 | 73,762 |
| Lease liabilities | | 3,161 | 3,589 |
| Loans from the ultimate holding company | 14 | 5,505 | 1,128 |
| | | 156,430 | 149,989 |
| Net current liabilities | | (62,513) | (59,742) |
| Total assets less current liabilities | | 29,910 | 38,332 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

| | | 31 December 2021 | 31 December 2020 |
|---|------|-----------------------------|---------------------|
| | Note | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Audited) |
| Non-current liabilities | | | |
| Lease liabilities | | – | 3,161 |
| Convertible bonds | 15 | 53,688 | 48,140 |
| | | 53,688 | 51,301 |
| NET LIABILITIES | | (23,778) | (12,969) |
| Capital and reserves | | | |
| Share capital – ordinary shares | 16 | 42,019 | 41,477 |
| Share capital – convertible preference shares | 17 | – | 542 |
| Reserves | | (95,597) | (79,507) |
| Capital deficiency attributable to owners of the Company | | (53,578) | (37,488) |
| Non-controlling interests | | 29,800 | 24,519 |
| CAPITAL DEFICIENCY | | (23,778) | (12,969) |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the twelve months ended 31 December 2021

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---------------------------------------|---|---------------------------|-------------------------------------|---------------------------------------|----------------------------------|---------------------------------|-------------------------------|--------------------------------|----------------------|---------------------------------------|--------------------------|
| | Share capital HK\$'000 | Convertible preference shares HK\$'000 | Share premium HK\$'000 | Other reserve (Note) HK\$'000 | Convertible bonds reserve HK\$'000 | Share option reserve HK\$'000 | Translation reserve HK\$'000 | Statutory reserve HK\$'000 | Accumulated losses HK\$'000 | Subtotal HK\$'000 | Non-controlling interests HK\$'000 | Total equity HK\$'000 |
| At 1 January 2021 (audited) | 41,477 | 542 | 209,982 | 6,906 | 19,341 | 63,092 | 2,596 | 4,876 | (386,300) | (37,488) | 24,519 | (12,969) |
| (Loss) profit for the period | - | - | - | - | - | - | - | - | (17,027) | (17,027) | 4,360 | (12,647) |
| Other comprehensive income for the period: | | | | | | | | | | | | |
| Exchange differences on translating of foreign operations | - | - | - | - | - | - | 937 | - | - | 937 | 901 | 1,838 |
| Total comprehensive income (expense) for the period | - | - | - | - | - | - | 937 | - | (17,027) | (16,090) | 5,261 | (10,809) |
| Lapsed of share option | - | - | - | - | - | (23,228) | - | - | 23,228 | - | - | - |
| Conversion of convertible preference shares | 542 | (542) | - | - | - | - | - | - | - | - | - | - |
| At 31 December 2021 (unaudited) | 42,109 | - | 209,982 | 6,906 | 19,341 | 39,864 | 3,533 | 4,876 | (380,099) | (53,578) | 29,800 | 23,778 |
| At 1 January 2020 (audited) | 41,477 | 542 | 209,982 | 6,906 | - | 63,092 | 960 | 1,548 | (374,823) | (50,316) | 13,804 | (36,512) |
| (Loss) profit for the year | - | - | - | - | - | - | - | - | (8,149) | (8,149) | 9,144 | 995 |
| Other comprehensive income for the year: | | | | | | | | | | | | |
| Exchange differences on translating of foreign operations | - | - | - | - | - | - | 1,636 | - | - | 1,636 | 1,571 | 3,207 |
| Total comprehensive income (expense) for the year | - | - | - | - | - | - | 1,636 | - | (8,149) | (6,513) | 10,715 | 4,202 |
| Profit appropriation to statutory reserves | - | - | - | - | - | - | - | 3,328 | (3,328) | - | - | - |
| Issuance of convertible bonds | - | - | - | - | 19,341 | - | - | - | - | 19,341 | - | 19,341 |
| At 31 December 2020 (audited) | 41,447 | 542 | 209,982 | 6,906 | 19,341 | 63,092 | 2,596 | 4,876 | (386,300) | (37,488) | 24,519 | (12,969) |

Note: Other reserve represents the share of a subsidiary's share premium arising from the allotment and issue of shares and deemed contribution from owners of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the twelve months ended 31 December 2021

| | | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|---|---|--|--|
| Net cash used in operating activities | | (9,400) | (413) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 9 | (303) | (12,549) |
| Interest received | | 19 | 26 |
| Net cash used in investing activities | | (284) | (12,523) |
| Cash flows from financing activities | | | |
| Borrowings raised | | 24,703 | 68,161 |
| Repayment of borrowings | | (19,240) | (53,922) |
| Increase in loans from the ultimate holding company | | 7,011 | 2,448 |
| Repayment of loans from the ultimate holding company | | (2,850) | – |
| Interest paid | | (4,028) | (5,153) |
| Net cash generated from financing activities | | 5,596 | 11,534 |
| Net decrease in cash and cash equivalents | | (4,088) | (1,402) |
| Effects of foreign exchange rate changes | | 3,286 | 1,439 |
| Cash and cash equivalents at beginning of the period/year | | 5,446 | 5,409 |
| Cash and cash equivalents at end of the period/year, represented by bank balances and cash | | 4,644 | 5,446 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is P.O. Box 31119, Grand Pavilion, Hibiscus Bay, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands. The address of its principal place of business is 13/F, Admiralty Centre 2, 18 Harcourt Road, Admiralty, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are the manufacture and sale of modified starch and other biochemical products and general trading including the trading of electronic parts and components and electrical appliances.

In the opinion of the directors of the Company (the "Directors"), as at 31 December 2021, Chinese Success Limited ("Chinese Success"), a company incorporated in the British Virgin Islands, is the immediate parent; Wai Chun Investment Fund ("Wai Chun IF"), a company incorporated in the Cayman Islands, is the ultimate parent and Mr. Lam Ching Kui ("Mr. Lam") is the ultimate controlling party of the Company, who is also the chairman of the Board, the chief executive officer and an executive director of the Company.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company. In addition, the functional currencies of certain group entities that operate outside Hong Kong are determined based on the currency of the primary economic environment in which the Group entities operate.

Pursuant to a resolution of the Board of Directors of the Company dated 30 December 2021, the Company's financial year end date has been changed from 31 December to 30 June. The change is to rationalise and mobilise its resources with higher efficiency for the preparation of results announcement as well as reports, details please refer to the announcement dated on 30 December 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements should be read in conjunction with the 2020 annual financial statements. The accounting policies and methods of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2020.

The Group incurred a loss attributable to owners of the Company of approximately HK\$17,027,000 for the twelve months ended 31 December 2021 and as at 31 December 2021, the Group had net current liabilities and net liabilities of approximately HK\$62,513,000 and HK\$23,778,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors have prepared the condensed consolidated financial statements based on going concern on the assumptions and measures that:

- (a) As at 31 December 2021, the Company has drawn down loan of approximately HK\$5,505,000 and undrawn loan facilities of approximately HK\$74,495,000 granted by Wai Chun IF, its ultimate holding company;
- (b) In addition to the loan facilities granted by Wai Chun IF as stated above, Mr. Lam has also undertaken to provide adequate funds to enable the Group to meet its liabilities and to settle financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for the twelve months from the date of approving the condensed consolidated financial statements. Also, Mr. Lam agreed not to request the Group, whenever necessary, to settle the related party balance recorded in borrowings amounting to approximately HK\$16,420,000 until all other third parties liabilities of the Group had been satisfied;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

2. BASIS OF PREPARATION (Continued)

- (c) The Company has planned and is in negotiation with potential investors to raise sufficient funds through fund-raising arrangement; and
- (d) The Directors will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

The Directors have carried out a detailed review of the cash flow forecast of the Group for the twelve-month period from the date of this second interim report after taking into account the impact of above measures, the Directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements as and when they fall due in the next twelve months from the date of this second interim report, and accordingly, are satisfied that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amount, to provide for future liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in the condensed consolidated financial statements.

As set out in the paragraphs above, the Group intends to pursue strategic acquisitions that can enable the Company to capture new business opportunities in the People's Republic of China (the "PRC") market and to strengthen the revenue and profit fundamentals. The Company has been actively identifying projects with growth potential for acquisitions or investments and has engaged in discussions with various parties for such acquisitions or investments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s condensed consolidated financial statements and amounts reported for the current period and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The application of these new and revised HKFRSs will not have material impact on the condensed consolidated financial statements of the Group. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and condensed consolidated financial position.

4. REVENUE AND SEGMENT INFORMATION

The Group has two reportable segments as follows:

| | | |
|--|---|--|
| Modified starch and other biochemical products | – | Manufacturing and sale of modified starch and other biochemical products |
| General trading | – | Trading of electronic parts, components and electrical appliances |

The Group’s reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include other income and other gains and losses, net, central administration costs, finance costs and income tax expenses. Segment assets do not include other assets for central administration purpose. Segment liabilities do not include convertible bonds and other liabilities for central administration purpose.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

4. REVENUE AND SEGMENT INFORMATION (Continued)

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

Twelve months ended 31 December 2021

| | Modified starch and other biochemical products HK\$'000 (Unaudited) | General trading HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|--|--|---|----------------------------------|
| Revenue from external customers | 495,377 | – | 495,377 |
| Segment profit | 13,989 | – | 13,989 |
| Other revenue and other gains and losses, net | | | (228) |
| Central administration costs | | | (12,137) |
| Finance costs | | | (12,824) |
| Loss before tax | | | (11,200) |
| Income tax expense | | | (1,447) |
| Consolidated loss for the period | | | (12,647) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

Year ended 31 December 2020

| | Modified starch and other biochemical products HK\$'000 (Audited) | General trading HK\$'000 (Audited) | Total HK\$'000 (Audited) |
|--|--|---|--------------------------------|
| Revenue from external customers | 567,553 | – | 567,553 |
| Segment profit | 22,670 | – | 22,670 |
| Other revenue and other gains and losses, net | | | (122) |
| Central administration costs | | | (13,022) |
| Finance costs | | | (7,915) |
| Profit before tax | | | 1,611 |
| Income tax expense | | | (616) |
| Consolidated profit for the year | | | 995 |

The Group recognised revenue disaggregated from contracts with customers when their products are transferred to the customers at a point in time.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

At 31 December 2021

| | Modified starch and other biochemical products HK\$'000 (Unaudited) | General trading HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|---------------------------------------|--|---|----------------------------------|
| Assets | | | |
| Segment assets | 179,181 | 3,201 | 182,382 |
| Unallocated assets | | | 3,958 |
| Consolidated total assets | | | 186,340 |
| Liabilities | | | |
| Segment liabilities | (118,365) | (9,363) | (127,728) |
| Unallocated liabilities | | | (82,390) |
| Consolidated total liabilities | | | (210,118) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

At 31 December 2020

| | Modified starch and other biochemical products HK\$'000 (Audited) | General trading HK\$'000 (Audited) | Total HK\$'000 (Audited) |
|--------------------------------|--|---|--------------------------------|
| Assets | | | |
| Segment assets | 180,339 | 241 | 180,580 |
| Unallocated assets | | | 7,741 |
| Consolidated total assets | | | 188,321 |
| Liabilities | | | |
| Segment liabilities | (130,300) | (2,211) | (132,511) |
| Unallocated liabilities | | | (68,779) |
| Consolidated total liabilities | | | (201,290) |

For the purposes of monitoring segment performance and allocating resources between segments:

- assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual segments; and
- liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

4. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

Twelve months ended 31 December 2021

| | Modified starch and other biochemical products HK\$'000 (Unaudited) | General trading HK\$'000 (Unaudited) | Unallocated HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|---|---|---|--|----------------------------------|
| Additions to property, plant and equipment | 300 | 3 | – | 303 |
| Depreciation on property, plant and equipment and right-of-use assets | 6,500 | 133 | 3,664 | 10,297 |
| Reversal of impairment losses on trade and other receivables, net | (1,085) | – | – | (1,085) |

Year ended 31 December 2020

| | Modified starch and other biochemical products HK\$'000 (Audited) | General trading HK\$'000 (Audited) | Unallocated HK\$'000 (Audited) | Total HK\$'000 (Audited) |
|---|---|---|--------------------------------------|--------------------------------|
| Additions to property, plant and equipment and right-of-use assets | 12,522 | 27 | 7,401 | 19,950 |
| Depreciation on property, plant and equipment and right-of-use assets | 5,627 | 137 | 611 | 6,375 |
| Loss on disposal of property, plant and equipment | 36 | – | – | 36 |
| Impairment losses on trade and other receivables, net | 1,584 | – | – | 1,584 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

4. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

For the twelve months ended 31 December 2021 and year ended 31 December 2020, the Group's operations were principally located in Hong Kong (country of domicile) and the PRC with revenue and profits from its operations.

The following is an analysis of the Group's revenue from external customers and non-current assets by geographical locations:

| | Revenue from external customers | | Non-current assets | |
|-----------|---------------------------------|-------------|--------------------|-------------|
| | Twelve months ended | Year ended | 31 December | 31 December |
| | 31 December | 31 December | 31 December | 31 December |
| | 2021 | 2020 | 2021 | 2020 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) | (Unaudited) | (Audited) |
| Hong Kong | – | – | 3,150 | 6,944 |
| PRC | 495,377 | 567,553 | 89,273 | 91,130 |
| | 495,377 | 567,553 | 92,423 | 98,074 |

In preparing the geographical information, revenue is based on the locations of the customers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

4. REVENUE AND SEGMENT INFORMATION (Continued)

Information on major customers

Revenues from customers from manufacturing and sale of modified starch and other biochemical products of the corresponding periods contributing over 10% of the total revenue of the Group are as follows:

| | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|------------|--|--|
| Customer A | 80,069 | 86,406 |
| Customer B | 79,221 | 87,118 |
| Customer C | 58,874 | 63,848 |

No other single customer contributes 10% or more to the Group's revenue for the period/year.

5. INCOME TAX EXPENSE

| | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|--|--|--|
| Income tax expense comprises: | | |
| Current income tax – PRC Enterprise Income Tax | | |
| Provision for the period/year | 1,447 | 616 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

5. INCOME TAX EXPENSE (Continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The Directors considered the amount involved upon implementation of the two-tiered profits tax rates regime is insignificant to the condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period/year.

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit derived from Hong Kong for the period/year.

PRC subsidiaries are subject to PRC Enterprise Income Tax ("EIT") at 25% for both periods, except for the following subsidiary of the Company which were taxed at the local applicable income tax rate.

A Company's subsidiary was exempted from PRC income taxes for both periods. According to the Implementation Regulation of the EIT Law and the EIT exemptions regulation set out in the Circular of the Ministry of Finance and the State Administration on Releasing the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from primary processing for agriculture products are exempted from EIT.

The provision for Macau Complementary Tax was calculated at 12% (year ended 31 December 2020: 12%) of the estimated assessable profits for the twelve months ended 31 December 2021. Assessable profit of the first Macau Patacas ("MOP") 600,000 (equivalent to approximately HK\$583,000) (year ended 31 December 2020: MOP600,000 (equivalent to approximately HK\$583,000)) were exempted from Macau Complementary Tax.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

6. (LOSS) PROFIT FOR THE PERIOD/YEAR

| | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|---|--|--|
| (Loss) profit for the period/year has been arrived at after charging (crediting): | | |
| Cost of inventories sold | 457,567 | 515,135 |
| (Reversal of impairment losses)/impairment losses on trade and other receivables, net | (1,085) | 1,584 |
| Depreciation on property, plant and equipment | 6,042 | 5,067 |
| Depreciation on right-of-use assets | 4,255 | 1,308 |
| Staff costs (including directors' emoluments and retirement benefit costs) | 15,484 | 14,737 |

7. INTERIM DIVIDEND

The Board has resolved not to declare any second interim dividend for the twelve months ended 31 December 2021 (year ended 31 December 2020: Nil).

8. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company for the twelve months ended 31 December 2021 is based on the loss attributable to owners of the Company of approximately HK\$17,027,000 (year ended 31 December 2020: loss attributable to owners of the Company of approximately HK\$8,149,000) and the weighted average number of ordinary shares of 1,673,928,811 (year ended 31 December 2020: 1,659,068,537) in issue during the period/year.

Diluted loss per share

As the exercise of the Group's outstanding convertible bonds for the twelve months ended 31 December 2021 would be anti-dilutive and there was no dilutive potential ordinary shares for the Company's outstanding share options and convertible preference shares in the period/year, accordingly, the diluted loss per share is same as the basic loss per share in the period/year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

9. PROPERTY, PLANT AND EQUIPMENT

During the twelve months ended 31 December 2021, the Group acquired items of property, plant and equipment at a total cost of approximately HK\$303,000 (unaudited) (for the year ended 31 December 2020: approximately HK\$12,549,000 (audited)).

10. RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|----------------------|--|--|
| Right-of-use assets | | |
| – Land use rights | 30,585 | 30,190 |
| – Land and buildings | 3,127 | 6,791 |
| | 33,712 | 36,981 |

The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:

| | | |
|-------------------------|--------------|-------|
| – Less than 1 year | 3,250 | 3,900 |
| – Between 1 and 2 years | – | 3,250 |
| | 3,250 | 7,150 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

10. RIGHT-OF-USE ASSETS (Continued)

Disclosures of lease-related items: (Continued)

| | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|--|--|--|
| Depreciation charge of right-of-use assets | | |
| – Land use rights | 591 | 697 |
| – Land and buildings | 3,664 | 611 |
| | 4,255 | 1,308 |
| Lease interests | 311 | 73 |
| Expenses related to short-term leases | – | 3,700 |
| Total cash outflow for leases | 3,900 | 5,000 |
| Addition to the right-of-use asset | – | 7,401 |

The Group leases various land use rights and land and buildings. Lease agreements are typically made for fixed periods of 2 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

Certain leasehold lands in the PRC recorded in right-of-use assets with carrying amount of approximately HK\$19,160,000 (unaudited) (31 December 2020: approximately HK\$17,804,000 (audited)) have been pledged to secure the bank loans and general banking facilities granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

11. TRADE AND BILLS RECEIVABLES

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|------------------------------------|--|--|
| Trade receivables | 23,761 | 16,796 |
| Bills receivable | – | 882 |
| | 23,761 | 17,678 |
| Less: Provision for loss allowance | (3,934) | (3,909) |
| Carrying amount | 19,827 | 13,769 |

The Group allows average credit period of 30 to 180 days to its customers. Receivables that were current relate to customers for whom there was no recent history of default. The provision for impairment is made unless the Group has concluded that recovery is remote, in which case the unrecovered loss is written off against trade and bills receivables and the provision for impairment directly. The Group does not hold any collateral over these balances.

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

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|-------------|--|--|
| 0–30 days | 14,522 | 11,083 |
| 31–60 days | 3,617 | 1,167 |
| 61–90 days | 1,409 | 1,150 |
| 91–180 days | 279 | 369 |
| Total | 19,827 | 13,769 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

11. TRADE AND BILLS RECEIVABLES (Continued)

As at 31 December 2021, the trade and bills receivables of approximately HK\$19,827,000 (unaudited) (31 December 2020: approximately HK\$13,769,000 (audited)) are not past due and regarded as having low default risk by the management of the Company based on regular repayment history in the expected credit loss assessment.

Reconciliation of loss allowance for trade and bills receivables:

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|---|--|--|
| Balance at beginning of the period/year | 3,909 | 6,976 |
| Increase in loss allowance | 476 | 1,187 |
| Reversal of allowance | (451) | (4,254) |
| | <hr/> | <hr/> |
| Balance at end of the period/year | 3,934 | 3,909 |

12. TRADE PAYABLES

The average credit period on purchases of goods ranges from 30 to 180 days. The Group has financial risk management policies to ensure that all payables are paid within the credit timeframe. The aging analysis of trade payables based on the invoice date, is as follows:

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|---------------|--|--|
| 0–30 days | 13,415 | 17,909 |
| 31–60 days | 10,844 | 15,705 |
| 61–90 days | 14,189 | 7,951 |
| 91–180 days | 330 | 413 |
| Over 180 days | 1,166 | 1,214 |
| | <hr/> | <hr/> |
| Total | 39,944 | 43,192 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

13. BORROWINGS

| | | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|---------------------------------------|------|--|--|
| Bank loans | (i) | 64,414 | 62,945 |
| Loan from the controlling shareholder | (ii) | 16,420 | 6,732 |
| Loans from independent third parties | (ii) | 4,182 | 4,085 |
| Total | | 85,016 | 73,762 |

Notes:

- (i) The bank loans are secured by certain leasehold lands in the PRC recorded in right-of-use assets with aggregate carrying amount of approximately HK\$19,160,000 (unaudited) (31 December 2020: approximately HK\$17,804,000 (audited)). All bank loans are denominated in Renminbi and arranged at floating rates and exposed the Group to cash flow interest rate risk and interest bearing with average interest rate at 4.79% (unaudited) (31 December 2020: 4.35% to 4.79% (audited)) per annum and repayable within one year.
- (ii) The loans are unsecured, arranged at floating rates and exposed the Group to cash flow interest rate risk and interest bearing at 1% above Hong Kong Prime Rate per annum, repayable on demand and denominated in Hong Kong dollars.

14. LOANS FROM THE ULTIMATE HOLDING COMPANY

Loans from the ultimate holding company are unsecured, interest bearing at 6.25% per annum and repayable on demand as at 31 December 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

15. CONVERTIBLE BONDS

On 27 November 2020 ("Issue Date of CB"), the Company issued an unlisted, unguaranteed and unsecured convertible bond (the "CB") with principal amount of HK\$67,000,000, to an independent third party.

The CB is convertible at the option of the bondholder into fully paid ordinary shares with a par value of HK\$0.025 each of the Company on or after 27 November 2020 up to and including 26 November 2023 at an initial conversion price of HK\$0.12 per share subject to adjustments upon occurrence of certain events. The maximum number of ordinary shares of the Company can be converted is 558,333,333 shares per principal amount of the CB of HK\$67,000,000, which also subject to adjustments upon occurrence of certain events.

Should the CB has not been converted, it will be redeemed at par on 27 November 2023 ("Maturity Date of CB").

The CB has coupon rate of 4% per annum on the principal amount outstanding and interest will be paid quarterly in arrears until the maturity date.

The Company shall be entitled at its sole discretion, by giving not less than fourteen days' notice to the bondholder, propose to the bondholder to redeem the outstanding CB (in multiples of HK\$5,000,000 or such lesser amount as may represent the entire principal amount thereof) an amount equivalent to 100% of the principal amount of such outstanding CB at any time after the Issue Date of CB up to and including the date falling fourteen days immediately before the Maturity Date of CB.

The interest charged is calculated by applying an effective interest rate of 17.44% to the liability component for the 36 month period since the CB was issued.

The Directors estimate the fair value of the liability component of the CB at 31 December 2021 to be approximately HK\$53,688,000 (unaudited) (31 December 2020: approximately HK\$48,140,000 (audited)). This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

No conversion of CB of the Company was made during the period/year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

16. SHARE CAPITAL – ORDINARY SHARES

| | Number of shares | Amount equivalent to HK\$'000 |
|--|---------------------|-------------------------------------|
| Authorised: | | |
| Shares of the Company HK\$0.025 (At 1 January 2020: HK\$0.0025) each | | |
| At 1 January 2020 | 40,000,000,000 | 100,000 |
| Share consolidation (Note a) | (36,000,000,000) | – |
| | <hr/> | |
| At 31 December 2020, 1 January 2021 and 31 December 2021 | 4,000,000,000 | 100,000 |
| | <hr/> | |
| Issued and fully paid: | | |
| Shares of the Company HK\$0.025 (At 1 January 2020: HK\$0.0025) each | | |
| At 1 January 2020 | 16,590,685,376 | 41,477 |
| Share consolidation (Note a) | (14,931,616,839) | – |
| | <hr/> | |
| At 31 December 2020 and 1 January 2021 | 1,659,068,537 | 41,477 |
| Conversion of convertible preference shares (Note b) | 21,696,000 | 542 |
| | <hr/> | |
| At 31 December 2021 | 1,680,764,537 | 42,019 |
| | <hr/> | |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

16. SHARE CAPITAL – ORDINARY SHARES (Continued)

Notes:

- (a) At the extraordinary general meeting of the Company held on 25 November 2020, an ordinary resolution was duly passed under which every 10 existing issued and unissued shares of par value of HK\$0.0025 each in the share capital of the Company was consolidated into 1 share of par value of HK\$0.025 each (the “Share Consolidation”) and the Share Consolidation has become effective on 27 November 2020.

The authorised share capital of ordinary shares of the Company was HK\$100,000,000 divided into 40,000,000,000 existing ordinary shares with a par value of HK\$0.0025 each before the Share Consolidation. After the Share Consolidation, the authorised share capital of ordinary shares of the Company became HK\$100,000,000 divided into 4,000,000,000 consolidated ordinary shares with a par value of HK\$0.025 each. There was no change on the amount of authorised and issued share capital of ordinary shares.

The total number of authorised ordinary shares of the Company decreased from 40,000,000,000 ordinary shares to 4,000,000,000 ordinary shares and the total number of issued ordinary shares decreased from 16,590,685,376 ordinary shares to 1,659,068,537 ordinary shares, after the Share Consolidation.

- (b) During the twelve months ended 31 December 2021, 21,696,000 of the convertible preference shares were converted into 21,696,000 ordinary shares of the Company by crediting the share capital of HK\$542,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

17. SHARE CAPITAL – CONVERTIBLE PREFERENCE SHARES

| | Number of shares | Amount equivalent to HK\$'000 |
|--|---------------------|-------------------------------------|
| Authorised: | | |
| Shares of the Company HK\$0.025 (At 1 January 2020: HK\$0.0025) each | | |
| At 1 January 2020 | 816,000,000 | 2,040 |
| Share consolidation (Note b) | (734,400,000) | – |
| | <hr/> | <hr/> |
| At 31 December 2020, 1 January 2021 and 31 December 2021 | 81,600,000 | 2,040 |
| | <hr/> | <hr/> |
| Issued and fully paid: | | |
| Shares of the Company HK\$0.025 (At 1 January 2020: HK\$0.0025) each | | |
| At 1 January 2020 | 216,960,000 | 542 |
| Share consolidation (Note b) | (195,264,000) | – |
| | <hr/> | <hr/> |
| At 31 December 2020 and 1 January 2021 | 21,696,000 | 542 |
| Conversion of convertible preference shares | (21,696,000) | (542) |
| | <hr/> | <hr/> |
| At 31 December 2021 | – | – |
| | <hr/> | <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

17. SHARE CAPITAL – CONVERTIBLE PREFERENCE SHARES (Continued)

Notes:

- (a) The convertible preference shares were non-redeemable, carry no voting right and each of the convertible preference share was convertible into one ordinary share at any time before the fifth anniversary of the issue date of convertible shares, i.e. 8 April 2016. The convertible preference shareholder was entitled to receive dividend pari passu with ordinary shareholders on an as converted basis.
- (b) As mentioned in note 16(a) about the Share Consolidation, the authorised share capital of preference shares of the Company was HK\$2,040,000 divided into 816,000,000 existing preference shares with a par value of HK\$0.0025 each before the Share Consolidation. After the Share Consolidation, the authorised share capital of preference shares of the Company became HK\$2,040,000 divided into 81,600,000 consolidated preference shares with a par value of HK\$0.025 each. There was no change on the amount of authorised and issued share capital of preference shares.

The total number of authorised preference shares of the Company decreased from 816,000,000 preference shares to 81,600,000 preference shares and the total number of issued preference shares decreased from 216,960,000 ordinary shares to 21,696,000 preference shares, after the Share Consolidation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

18. SHARE-BASED PAYMENTS

The Company's share option scheme was adopted pursuant to resolution passed on 22 July 2015 (the "Share Option Scheme"), the Company may, at their discretion, invite executive or non-executive director, employee (whether full-time or part-time), chief executive, substantial shareholder, consultant, professional and other advisers to take up options.

As at 31 December 2020 and 31 December 2021, the number of shares in respect of the options granted and remained outstanding under the Share Option Scheme was 159,546,853 (audited) and 89,582,907 (unaudited) respectively, representing 9.6% and 5.4% respectively of the issued shares of the Company. As at the date of this second interim report, no share was available for further issue under the Share Option Scheme.

Movements of the Company's share options held by consultants and an employee during the twelve months ended 31 December 2021 and the year ended 31 December 2020 are set out below:

| Category of participants | Number of share options | | | | | Date of grant | Exercise period | Exercise price HK\$ |
|--------------------------|--------------------------------|----------|-----------|---------------------|------------------------------------|-----------------|---------------------------------------|------------------------|
| | As at | Granted | Exercised | Lapsed | As at | | | |
| | 1 January 2021 (Audited) | | | | 31 December 2021 (Unaudited) | | | |
| Consultants | 53,693,261 | - | - | (53,693,261) | - | 12 January 2016 | 12 January 2016 to 11 January 2021 | 0.686 |
| Employee | 16,270,685 | - | - | (16,270,685) | - | 12 January 2016 | 12 January 2016 to 11 January 2021 | 0.686 |
| Consultants | 73,312,222 | - | - | - | 73,312,222 | 16 July 2018 | 16 July 2018 to 15 July 2023 | 0.720 |
| Employee | 16,270,685 | - | - | - | 16,270,685 | 16 July 2018 | 16 July 2018 to 15 July 2023 | 0.720 |
| Total | 159,546,853 | - | - | (69,963,946) | 89,582,907 | | | |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

18. SHARE-BASED PAYMENTS (Continued)

| Category of participants | Number of share options | | | | Date of grant | Exercise period | Exercise price HK\$ |
|--------------------------|--------------------------------|----------|-----------|----------------------------------|-----------------|---------------------------------------|------------------------|
| | As at | Granted | Exercised | As at | | | |
| | 1 January 2020 (Audited) | | | 31 December 2020 (Audited) | | | |
| Consultants | 53,693,261 | - | - | 53,693,261 | 12 January 2016 | 12 January 2016 to 11 January 2021 | 0.686 |
| Employee | 16,270,685 | - | - | 16,270,685 | 12 January 2016 | 12 January 2016 to 11 January 2021 | 0.686 |
| Consultants | 73,312,222 | - | - | 73,312,222 | 16 July 2018 | 16 July 2018 to 15 July 2023 | 0.720 |
| Employee | 16,270,685 | - | - | 16,270,685 | 16 July 2018 | 16 July 2018 to 15 July 2023 | 0.720 |
| Total | 159,546,853 | - | - | 159,546,853 | | | |

On 12 January 2016, the Company granted a total of 69,963,946 share options under the Share Option Scheme to consultants and an employee of the Group. The exercise period of the options is 5 years from the date of grant of the options, i.e. from 12 January 2016 to 11 January 2021. The options will entitle the grantees to subscribe for a total of 69,963,946 new shares of HK\$0.025 each at an exercise price of HK\$0.686 per share.

On 16 July 2018, the Company granted a total of 89,582,907 share options under the Share Option Scheme to consultants and an employee of the Group. The exercise period of the options is 5 years from the date of grant of the options, i.e. from 16 July 2018 to 15 July 2023. The options will entitle the grantees to subscribe for a total of 89,582,907 new shares of HK\$0.025 each at an exercise price of HK\$0.720 per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

18. SHARE-BASED PAYMENTS (Continued)

The fair value of the share options determined at the date of grant was calculated by independent valuer using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| Grant date | 12 January 2016 | 16 July 2018 |
|---|--------------------|-----------------|
| Exercise price (HK\$) | 0.686 | 0.720 |
| Share price at the date of grant (HK\$) | 0.686 | 0.720 |
| Dividend yield (%) | – | – |
| Expected volatility (%) | 93.245 | 90.196 |
| Risk-free interest rate (%) | 0.941 | 2.094 |
| Expected life of options (years) | 5 | 5 |

The binomial option model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their respective fair value.

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2020.

There have been no changes in the risk management policies since 31 December 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

20. RELATED PARTY TRANSACTIONS

(a) Related party transactions

In addition to those related party transactions disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with its related parties during the period/year:

| | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|---|--|--|
| Interest expenses on loans from the ultimate holding company | 216 | 1,572 |
| Interest expenses on loan from the controlling shareholder | 728 | 785 |
| Rental expenses on short-term lease to a related company* | – | 3,700 |
| Salaries to the spouse of a director who has control over the Group | 996 | 585 |
| Salaries to a son of a director who has control over the Group | 535 | 410 |

* A director of the Company, Mr. Lam, has control over the related company.

(b) Related party balances

In addition to those related party balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following balances with its related parties as at the period/year ended:

| | 31 December 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|--|--|--|
| Loan facilities granted by the ultimate holding company to the Group | 80,000 | 70,000 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the twelve months ended 31 December 2021

20. RELATED PARTY TRANSACTIONS (Continued)

(c) Key management personnel remuneration

The remuneration of the Directors and other members of key management personnel during the period/year are as follows:

| | Twelve months ended 31 December 2021 HK\$'000 (Unaudited) | Year ended 31 December 2020 HK\$'000 (Audited) |
|--|--|--|
| Salaries and allowances | 5,025 | 4,229 |
| Retirement benefit scheme contributions | 122 | 66 |
| Total | 5,147 | 4,295 |

21. EVENTS AFTER THE REPORTING PERIOD

On 22 October 2021, the Company and the holder of the 4% coupon convertible bonds due in 2023 (the “Existing Convertible Bonds”) agreed to amend certain terms of the Existing Convertible Bonds. For details of the amendments, please refer to the circular of the Company dated 9 December 2021.

On 22 October 2021, the Company entered into a subscription agreement with Chinese Success for the subscription of convertible bonds (the “New Convertible Bonds”) to be issued by the Company in the principal amount of HK\$21,000,000 under a specific mandate to be obtained from independent shareholders of the Company at a general meeting of the Company.

The proposed amendments to the Existing Convertible Bonds was approved and the specific mandate for the issue of the New Convertible Bonds was granted to the Company in an extraordinary general meeting held on 31 December 2021. The amendments to the terms of the Existing Convertible Bonds took effect on 17 January 2022 and the completion for the subscription of the New Convertible Bonds took place on 17 January 2022 following the satisfaction of all the conditions, including but not limited to the granting of listing approval by the Stock Exchange.