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SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

ANNUAL RESULTS

The board of Directors (the “**Board**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019, which are presented in Hong Kong dollars (“**HK\$**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
REVENUE	4	44,984	58,746
Cost of sales		<u>(34,537)</u>	<u>(47,416)</u>
Gross profit		10,447	11,330
Other (losses) gains, net	5	(1,077)	2,039
Selling and distribution expenses		(5,745)	(7,393)
Administrative expenses		(15,407)	(13,508)
Impairment loss on financial assets, net		(146)	(3,103)
Other expenses		(3,302)	(4,709)
Finance costs		<u>(365)</u>	<u>(1,313)</u>
LOSS BEFORE TAX		(15,595)	(16,657)
Income tax expense	6	<u>–</u>	<u>(2,562)</u>
LOSS FOR THE YEAR	7	<u>(15,595)</u>	<u>(19,219)</u>
			(Restated)
LOSS PER SHARE	9		
Basic and diluted (expressed in HK cents per share)		<u>(6.22)</u>	<u>(8.66)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(15,595)</u>	<u>(19,219)</u>
OTHER COMPREHENSIVE INCOME (EXPENSES)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>4,090</u>	<u>(1,415)</u>
OTHER COMPREHENSIVE INCOME (EXPENSES) FOR THE YEAR, NET OF TAX	<u>4,090</u>	<u>(1,415)</u>
TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR	<u>(11,505)</u>	<u>(20,634)</u>
ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>(11,505)</u>	<u>(20,634)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		4,090	6,175
Right-of-use assets		3,763	5,530
Financial asset at fair value through profit or loss ("FVTPL")		5,144	4,742
Deposit and other receivables	10	<u>–</u>	<u>1,908</u>
		12,997	18,355
CURRENT ASSETS			
Inventories		12,070	11,382
Trade receivables	10	10,034	10,404
Deposit and other receivables	10	14,121	4,821
Cash and bank balances		11,918	<u>34,531</u>
		48,143	61,138
CURRENT LIABILITIES			
Trade payables	11	5,510	5,199
Other payables and accruals	11	4,583	4,696
Bank borrowings	12	–	19,967
Lease liabilities		1,956	2,155
Tax payables		641	<u>1,135</u>
		12,690	33,152
NET CURRENT ASSETS		35,453	27,986
TOTAL ASSETS LESS CURRENT LIABILITIES		48,450	46,341
NON-CURRENT LIABILITY			
Lease liabilities		2,842	<u>3,869</u>
NET ASSETS		45,608	<u>42,472</u>
CAPITAL AND RESERVES			
Share capital	13	12,000	8,000
Reserves		33,608	<u>34,472</u>
TOTAL EQUITY		45,608	<u>42,472</u>

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 18 August 2016. The registered office address of the Company is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the manufacture and trading of sewing threads and broad categories of garment accessories.

In the opinion of the Directors, the ultimate holding company of the Group is Three Gates Investment Limited, which was incorporated in the British Virgin Islands (“BVI”) with limited liability and is controlled by Mr. Wong Kwok Wai, Albert (“Mr. Wong”).

The functional currency of the Company is Hong Kong Dollars (“HK\$”), which is also the presentation currency of Company.

2 BASIS OF PREPARATION

- (a) These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and the Companies Ordinances.
- (b) In January 2020, the Independent Commission Against Corruption (the “ICAC”) conducted a search of the registered office of the Company and the Company's chairman and chief executive officer was under investigation (the “Investigation”) with no prosecution issued by the ICAC up to the date of approval of these consolidated financial statements.

As at the date of this announcement, the ICAC investigation is still ongoing. The Company will make further announcement(s) as and when appropriate pursuant to the requirements under the GEM Listing Rules.

In the opinion of the directors of the Company (The “Directors”), the Investigation does not have material impact to these financial statements.

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

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

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

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

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

Impacts on application of Amendments to HKAS1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decision that the primary users of general purposes financial statements make on the basis of those financial statement, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 Amendments to HKFRS 3	Insurance Contracts and the related Amendments ¹ 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 ⁴
Amendments to HKFRS 16 Amendments to HKFRS 10 and HKAS 28	COVID-19 Related Rent Concessions ⁵ Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non- current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37 <i>Amendments to HKFRSs</i> Hong Kong Accounting Guideline 5 (Revised)	Onerous Contracts – Cost of Fulfilling a Contract ² Annual Improvements to HKFRSs 2018–2020 ² Merger Accounting for Common Control Combinations ²

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

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

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

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

⁵ Effective for annual periods beginning on or after 1 June 2020.

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

4. OPERATING SEGMENT INFORMATION

The Group identifies its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in the internal reporting to the executive directors, which is the manufacture and selling of sewing threads business. The Group's assets and capital expenditure are principally attributable to this business component.

(i) **Revenue from contracts with customers**

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Types of goods or services:		
Sale of industrial products	<u>44,984</u>	<u>58,746</u>
Geographical markets(note):		
Mainland China	26,081	32,968
Overseas	15,081	22,233
Hong Kong	<u>3,822</u>	<u>3,545</u>
Total revenue from contracts with customers	<u>44,984</u>	<u>58,746</u>
Timing of revenue recognition:		
Goods transferred at a point in time	<u>44,984</u>	<u>58,746</u>

Note:

The revenue information is based on the locations of the customers.

(ii) **Non-current assets**

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	6,693	10,472
Hong Kong	<u>1,160</u>	<u>1,233</u>
	<u>7,853</u>	<u>11,705</u>

The non-current asset information is based on the location of the assets and exclude financial asset at FVTPL and deposit and other receivables.

(iii) Performance obligations for contracts with customers

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30–90 days from delivery.

(iv) Transaction price allocated to the remaining performance obligation for contracts with customers

All revenue contracts are for period of one year or less. As permitted by HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(v) Information about major customers

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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	<u>12,663</u>	<u>18,950</u>

5. OTHER (LOSSES) GAINS, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Rental income	916	901
Fair value (losses) gains on financial assets at FVTPL, net	(429)	110
Exchange (losses) gains, net	(3,082)	404
Interest income	592	214
Government grants (<i>Note</i>)	459	–
Gain on early termination of right-of-use assets	64	–
Others	403	410
	<u> </u>	<u> </u>
	<u><u>(1,077)</u></u>	<u><u>2,039</u></u>

Note: The amount represented the subsidy received from the Hong Kong government. There was no unfulfilled condition and other contingency attached to the receipt of subsidy.

6. INCOME TAX EXPENSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current income tax:		
Mainland China	–	(74)
Deferred tax	–	2,636
	<u> </u>	<u> </u>
	<u><u> </u></u>	<u><u>2,562</u></u>

The Group is subjected to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

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 during the year, except for the subsidiary of the Group which is qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2019/2020. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

7. LOSS FOR THE YEAR

Loss for the year is arrived at after charging:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Auditor's remuneration	1,774	1,819
Cost of inventories sold	34,537	47,416
Depreciation of property, plant and equipment	1,092	955
Depreciation of right-of-use assets	1,674	1,684
Lease payments not included in the measurement of lease liabilities	127	791
Loss on disposal of property, plant and equipment	1,049	18
Employee benefit	14,475	17,292
Impairment loss recognised in respect of trade and other receivables	146	3,103
Impairment loss recognised in respect of property, plant and equipment	563	3,922
Impairment loss recognised in respect of right-of-use assets	<u>902</u>	<u>–</u>

8. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2020, nor has any dividend been proposed since the end of the reporting period (2019: Nil).

9. LOSS PER SHARE

Basic losses per share

	2020	2019
Losses		
Total loss attributable to owners of the parent (in HK\$'000)	<u>(15,595)</u>	<u>(19,219)</u>
Shares		(Restated)
Weighted average number of ordinary shares for the purpose of basic loss per share (note 1)	<u>250,858,000</u>	<u>221,990,000</u>
Basic and diluted loss per share (HK cents) (note 2)	<u>(6.22)</u>	<u>(8.66)</u>

Notes:

- 1) The weighted average number of ordinary shares for the purpose of basic and diluted loss per share has been adjusted for the effect of rights issue on 12 June 2020 and the share consolidation on 25 August 2020. The denominator for the purpose of calculating basic and diluted loss per share in 2019 has been restated to reflect the effect of the share consolidation and rights issue during the year ended 31 December 2020. Details of the share consolidation and rights issue are set out in Note 13.
- 2) The diluted loss per share for the years ended 31 December 2020 and 2019 was the same as the basic loss per share as all the potential ordinary shares were anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables		10,367	10,609
Less: Allowance for credit losses		(333)	(205)
	(a)	10,034	10,404
Other prepayments		2,181	4,070
Loans to a vendor	(b)	3,542	3,539
Deposits and other receivables		11,959	2,663
		17,682	10,272
Less: Allowance for credit losses		(3,561)	(3,543)
		14,121	6,729
Classified as:			
Non-current assets		–	1,908
Current assets		14,121	4,821
		14,121	6,729
Total trade and other receivables		24,155	17,133

Notes:

- a) The Group's trading terms with its customers are mainly on credit. The credit period is generally from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. The Group had significant concentrations of credit risk as 26% (2019: 25%) of the trade receivables were derived from one (2019: one) customer as at 31 December 2020. The trade receivables from such customer were within the credit period. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	8,458	6,842
1 to 2 months	1,576	2,861
2 to 3 months	–	545
Over 3 months	–	156
	10,034	10,404

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Neither past due nor impaired	8,462	9,177
1 to 3 months	1,572	1,227
	10,034	10,404

- b) Loans to a vendor bear interest at rates 5.00% (2019:4.66% to 5.00%) per annum, secured by certain machineries of the vendor and repayable in two to three years with demand clause.

11. TRADE, OTHER PAYABLES AND ACCRUALS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables		
– from third parties (<i>Note</i>)	<u>5,510</u>	<u>5,199</u>
Other payables and accruals		
Contract liabilities	28	57
Other payables and accruals	<u>4,555</u>	<u>4,639</u>
Total other payables and accruals	<u>4,583</u>	<u>4,696</u>

Note: The other payables and accruals are unsecured, interest-free and repayable on an average term of three months.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	1,714	1,602
1 to 2 months	1,448	1,240
2 to 3 months	878	791
Over 3 months	<u>1,470</u>	<u>1,566</u>
	<u>5,510</u>	<u>5,199</u>

The credit period in purchase of goods is generally from one to three months.

12. BANK BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank loans, secured	–	15,033
Overdrafts	<u>–</u>	<u>4,934</u>
	<u>–</u>	<u>19,967</u>

All the interest-bearing bank borrowings were repayable on demand as at 31 December 2019 and all the interest bearing bank borrowings had been fully settled during the year ended at 31 December 2020.

13. SHARE CAPITAL

	Number of shares <i>HK\$0.01 each</i>	Number of shares <i>HK\$0.05 each</i>	Amount <i>HK\$'000</i>
Ordinary shares			
Authorised:			
At 1 January 2019, 31 December 2019 and 1 January 2020	5,000,000,000	–	50,000
Share consolidation (<i>note (b)</i>)	<u>(5,000,000,000)</u>	<u>1,000,000,000</u>	<u>–</u>
At 31 December 2020	<u>–</u>	<u>1,000,000,000</u>	<u>50,000</u>
Issued and fully paid:			
At 1 January 2019, 31 December 2019 and 1 January 2020	800,000,000	–	8,000
Issue of new shares by way of rights issue (<i>note (a)</i>)	400,000,000	–	4,000
Share consolidation (<i>note (b)</i>)	<u>(1,200,000,000)</u>	<u>240,000,000</u>	<u>–</u>
At 31 December 2020	<u>–</u>	<u>240,000,000</u>	<u>12,000</u>

Notes:

- (a) On 12 June 2020, the Company completed a rights issue and issued 400,000,000 new shares with par value HK\$0.01 each at a subscription price of HK\$0.043 per rights share on the basis of one rights share for every two existing shares held (the “**Rights Issue**”), and the net proceeds of the Rights Issue, after deducting the related expenses, were approximately HK\$14.6 million, which were mainly used for the Group’s working capital and business development. Detailed terms of the Rights Issue and its results were set out in the Company’s prospectus dated 20 May 2020 (the “**Rights Issue Prospectus**”) and the announcement dated 11 June 2020 respectively.
- (b) Pursuant to an extraordinary general meeting of the Company which was held on 21 August 2020 and the resolutions of the share consolidation of the Company involving consolidation of the number of shares on the basis that every five issued and unissued shares of HK\$0.01 each be consolidated into one consolidated share of HK\$0.05 each were approved, with effect from 25 August 2020.

EXTRACT OF THE INDEPENDENT AUDITOR’S REPORT

The Company’s independent auditor has expressed a qualified opinion in its auditor’s report on the Group’s consolidated financial statement for the year ended 31 December 2020, an extract of which is as follows:

Qualified opinion

We have audited the consolidated financial statements of Shen You Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for qualified opinion

On 14 January 2020, the Independent Commission Against Corruption (the “**ICAC**”) conducted a search of the registered office of the Company and the Company’s Chairman and Chief Executive Officer is under investigation by the ICAC. Furthermore, pursuant to a press release made by the ICAC on 25 March 2020, two individuals have been charged by the ICAC for alleged bribery and misconduct in public office and the name of the Company was associated with the charges. As the ICAC investigation is ongoing, the information available is very limited at this stage. We are unable to obtain sufficient and appropriate audit evidence to evaluate whether the investigation may have any impact on the operations and the financial positions of the Group.

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 qualified opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The Group is principally engaged in the manufacture and selling of sewing threads and broad categories of garment accessories. It currently manufactures polyester sewing threads, which are mainly used for garments. The major product of the Group is 100% spun polyester sewing threads. Other types of sewing threads are also offered, including textured polyester series, elastic filament sewing threads, weft yarn and nylon threads. The Group’s customers are located in the PRC, Hong Kong as well as overseas countries, including United Arab Emirates (“**UAE**”), Mauritius, Switzerland and the United Kingdom. While the Group’s customers in the PRC and Hong Kong are mainly garment manufacturers, its overseas customers are mainly wholesalers. The production facilities of the Group, where the sewing threads manufacturing process is conducted, are located in Liwan, Guangzhou (the “**Guangzhou Production Facilities**”).

Business review

For the year ended 31 December 2020, the Group’s revenue decreased by approximately 23.4% as compared with that for the year ended 31 December 2019. The gross profit margin increased to approximately 23.2% for the year ended 31 December 2020 from approximately 19.3% for the preceding year. The increase was mainly attributable to the decrease in the charge rate of the processing fees during the year.

While the Group’s business has experienced some difficulties as a result of the trade conflict between the PRC and the U.S. and the COVID-19, the Board and the senior management of the Company are confident of the business line of sewing threads of the Group’s steady performance given its competitive strengths, which include: (i) the long-term business relationships with its customers and suppliers; (ii) adoption of the stringent quality control mechanisms in the course of sewing threads production; (iii) the strategic location of the Guangzhou Production Facilities for its business development; and (iv) an experienced management team with extensive industry experience. Further details of the future prospects of the Group are set out in the section headed “Future Plans and Prospects” in this result announcement.

Financial review

Revenue

The Group's products are sold in the PRC, Hong Kong as well as overseas. The following table sets out a breakdown of the Group's revenue attributable to domestic and overseas sales of the Group's sewing threads for the two years ended 31 December 2020 and 2019:

	Year ended 31 December				Rate of change %
	2020		2019		
	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>	
PRC	26,081	58.0	32,968	56.1	(20.9)
Overseas <i>(Note)</i>	15,081	33.5	22,233	37.9	(32.2)
Hong Kong	3,822	8.5	3,545	6.0	7.8
	<u>44,984</u>	<u>100.0</u>	<u>58,746</u>	<u>100.0</u>	(23.4)

Note: For the two years ended 31 December 2020 and 2019, the Group exported its products to countries including but not limited to UAE, Mauritius, Switzerland and the United Kingdom.

The following table sets out the breakdown of the revenue by product that the Group offers for sale for the two years ended 31 December 2020 and 2019:

	Year ended 31 December				Rate of change %
	2020		2019		
	<i>HK\$'000</i>	<i>% of total revenue</i>	<i>HK\$'000</i>	<i>% of total revenue</i>	
100% spun polyester sewing threads	38,506	85.6	52,053	88.6	(26.0)
Other threads <i>(Note)</i>	6,478	14.4	6,693	11.4	(3.2)
	<u>44,984</u>	<u>100.0</u>	<u>58,746</u>	<u>100.0</u>	(23.4)

Note: Other threads comprise textured polyester series, elastic filament sewing threads, weft yarn and nylon threads.

The Group's revenue decreased to approximately HK\$45.0 million for the year ended 31 December 2020 from approximately HK\$58.7 million for the year ended 31 December 2019, representing a decrease of approximately 23.4%. Such decrease was mainly due to the decrease in sales to the PRC market and overseas market, of 20.9% and 32.2% due to outbreak of Covid-19. The overseas sales of the Group have been stopped nearly two months during the first half of 2020 and the sales order of the Group also reduce due to the dampened economic activities. The sales of the Group for the first three quarter of 2020 have been dropped approximately HK\$13 million compared with the same period of last year and it showed a recovery since the last quarter of 2020. The sales to PRC market and overseas market accounted for approximately 58.0% and 33.5% respectively of the total revenue for the year ended 31 December 2020.

Cost of sales

The Group's cost of sales primarily consists of direct material costs, processing fees and direct labour costs. The cost of sales decreased to approximately HK\$34.5 million for the year ended 31 December 2020 from approximately HK\$47.4 million for the year ended 31 December 2019, representing a decrease of approximately 27.2%. The Group's cost of sales decreased for the year ended 31 December 2020 mainly as a result of the aforementioned decrease in revenue.

Gross profit and gross profit margin

The Group's gross profit margin increased to approximately 23.2% from 19.3% for the year ended 31 December 2020, which was a result of the decrease in the charge rate of processing fees.

The Group's gross profit decreased to approximately HK\$10.4 million for the year ended 31 December 2020 from approximately HK\$11.3 million for the year ended 31 December 2019, representing a decrease of approximately 8.0%. The decrease was mainly a result of the aforementioned decrease in revenue.

Other losses and expenses, net

The Group recorded other losses, net of approximately HK\$4.4 million for the year ended 31 December 2020 as compared with other losses, net of approximately HK\$2.7 million for the year ended 31 December 2019, representing an increase of approximately 64.1%. Such increase was mainly attributable to the increase in the exchange loss during the year.

Selling and distribution expenses

Selling and distribution expenses mainly consist of staff costs and transportation expenses. Selling expenses decreased to approximately HK\$5.7 million for the year ended 31 December 2020 from approximately HK\$7.4 million for the year ended 31 December 2019. Such decrease was mainly due to the decrease in transportation expenses and labour cost as a result of the aforementioned decrease in revenue.

Administrative expenses

Administrative expenses primarily consist of staff costs, Directors' remuneration and legal and professional fees. Administrative expenses increased to approximately HK\$15.4 million for the year ended 31 December 2020 from approximately HK\$13.5 million for the year ended 31 December 2019, representing an increase of approximately 14.1%. Such increase was mainly attributable to the increase in legal and professional fees.

Finance costs

The Group's finance costs decreased to approximately HK\$0.4 million for the year ended 31 December 2020 from approximately HK\$1.3 million for the year ended 31 December 2019, representing a decrease of approximately 72.2%. Such decrease was mainly due to all the banking facilities have been cancelling by the bank with effect from April 2020. Therefore, the Group had fully settled all the bank borrowing during the year.

Loss before income tax

As a result of the aforesaid, the Group recorded a loss before income tax of approximately HK\$15.6 million for the year ended 31 December 2020 from approximately HK\$16.7 million for the year ended 31 December 2019, representing a decrease of approximately 6.6%.

Income tax expense

The Group recorded income tax expense of approximately HK\$2.6 million for the year ended 31 December 2019 while no income tax expense was recorded for the year ended 31 December 2020.

Total comprehensive expenses attributable to the owners of the parent

The total comprehensive expenses attributable to the owners of the parent decreased to approximately HK\$11.5 million for the year ended 31 December 2020 from approximately HK\$20.6 million for the year ended 31 December 2019, representing a decrease of approximately 44.2%. Such decrease was mainly due to the combined effect of the decrease in the Group's loss for the year ended 31 December 2020 due to the reasons mentioned above and the increase in exchange differences on translation of foreign operations.

Basic and diluted loss per share

The Company's basic and diluted loss per share for the year ended 31 December 2020 was approximately HK6.22 cents (2019: HK8.66 cents (restated)), representing a decrease of approximately 28.2%, which was mainly due to the decrease in loss attributable to the owners of the parent.

Final dividend

The board did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

Liquidity and financial resources

For the year ended 31 December 2020, the Group's operations were primarily financed through its operating and financing activities. The Directors believe that in the long term, the Group's operations will continue to be funded by a combination of cash generated from the Group's operating activities and financing activities.

The Group's cash and bank balances amounted to approximately HK\$11.9 million and approximately HK\$34.5 million as at 31 December 2020 and 2019, respectively. The functional currency of the Group is the Hong Kong dollar. As at 31 December 2020, 96.9% of the Group's cash and bank balances were denominated in the Group's functional currency (31 December 2019: 98.7%) and the remaining 3.1% (31 December 2019: 1.3%) in other currencies, mainly the Renminbi.

As at 31 December 2020 and 2019, the Group had net current assets of approximately HK\$35.5 million and approximately HK\$28.0 million, respectively, which included trade receivables, deposit and other receivables, inventories and cash and cash equivalents. The Group's current ratio increased from approximately 1.8 as at 31 December 2019 to approximately 3.8 as at 31 December 2020 due to the Rights Issue (as defined below) and the settlement of the bank borrowings.

Gearing ratio

The Group's gearing ratio is calculated based on net debt (including interest-bearing bank borrowings, trade payables, other payables and accruals, and lease liabilities, less cash and cash equivalents) divided by the total equity plus net debt at the respective reporting date. The gearing ratio is approximately 6.1% and approximately 3.1% as at 31 December 2020 and 2019, respectively. The Group believes that the cash at banks provide adequate liquidity to satisfy the Group's funding requirements.

Capital commitments

As at 31 December 2020, the Group did not have any capital commitments (as at 31 December 2019: nil).

Capital structure

On 12 June 2020, the Company completed a rights issue and issued 400,000,000 new shares with par value HK\$0.01 each at a subscription price of HK\$0.043 per rights share on the basis of one rights share for every two existing shares held (the “**Rights Issue**”), and the net proceeds of the Rights Issue, after deducting the related expenses, were approximately HK\$14.6 million, which were mainly used for the partial payments of the Group’s general and administrative expenses, professional fees and acquisition of raw materials. Detailed terms of the Rights Issue and its results were set out in the Company’s prospectus dated 20 May 2020 (the “**Rights Issue Prospectus**”) and the announcement dated 11 June 2020, respectively.

In the extraordinary general meeting of the Company on 21 August 2020, it was approved that a share consolidation on the basis that every five (5) issued and unissued Shares of HK\$0.01 each were consolidated into one (1) Share of HK\$0.05 each on 25 August 2020 (“**Share Consolidation**”). Details of the Share Consolidation are set out in the Company’s circular dated 5 August 2020 and the announcement dated 21 August 2020.

As at 31 December 2020, the Company’s issued share capital amounted to HK\$12.0 million, divided by 240,000,000 shares of HK\$0.05 each.

Details of changes in the Company’s share capital for the year ended 31 December 2020 are set out in Note 13.

As at 31 December 2020, the net proceeds of the Rights Issue had been utilised as follows:

	Actual net proceeds allocated <i>HK\$ million</i>	Amount utilised up to 31 December 2020 <i>HK\$ million</i>	Balance as at 31 December 2020 <i>HK\$ million</i>	Expected timeline for utilising the unutilised amount ^(Note)
General and administrative expenses	7.4	5.0	2.4	on or before 31 December 2021
Professional fees	3.0	3.0	–	–
Acquisition of raw materials	4.2	4.2	–	–
	<u>14.6</u>	<u>12.2</u>	<u>2.4</u>	

Significant investments

As at 31 December 2020, the Group did not hold any significant investments (as at 31 December 2019: Nil).

Material acquisitions or disposals of subsidiaries and affiliated companies

During the year ended 31 December 2020, the Group did not have any acquisitions or disposals of subsidiaries and affiliated companies.

Future plans for material investments and capital assets

As disclosed in the announcements of the Company dated 18 August 2020, 7 September 2020, 28 September 2020, 20 October 2020, 17 November 2020, 17 December 2020, 12 January 2021, 2 February 2021 and the circular of the Company dated 12 January 2021, the Company entered into a sale and purchase agreement in relation to the acquisition of the entire issued share capital of Diamond Motto Limited. The Company has completed the acquisition on 9 February 2021 and disclosed in the announcement of the Company dated 9 February 2021.

Save as these disclosed above and in the Company's prospectus dated 30 November 2017 (the "Prospectus"), the Group currently has no other plans for material investments and capital assets.

Contingent liabilities

As at 31 December 2020, the Group did not have material contingent liabilities (as at 31 December 2019: Nil).

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients and credit review of the Group's loan portfolio. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Foreign exchange exposure

The Group is exposed to foreign currency risk when it enters into transactions which are not denominated in the Group's functional currency. Such exposure mainly relates to the distribution and sale of the Group's products and purchases of raw materials in the PRC. The Group currently does not have a foreign currency hedging policy. Yet, the Group's management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Pledge of assets

As at 31 December 2020 and 2019, the following assets were pledged to banks to secure certain banking facilities granted to the Group:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Financial asset at FVTPL	—	4,742
Trade receivables	—	3,622
	<hr/>	<hr/>
	—	8,364
	<hr/> <hr/>	<hr/> <hr/>

Employees and remuneration policies

As at 31 December 2020, the Group employed a total of 157 employees (as at 31 December 2019: 172), of whom 147 were located in the PRC and 10 were located in Hong Kong. The Group's staff costs mainly comprised wages and salaries, social insurance, housing provident fund and severance payments. For the two years ended 31 December 2020, the Group's total staff costs (excluding Directors' emoluments) amounted to approximately HK\$17.3 million and HK\$14.5 million, respectively. The Group offers remuneration packages comprising basic salaries, discretionary bonuses and allowances to its management and office staff. For the workers at the Guangzhou Production Facilities, the Group offers them salaries above the minimum wage, promotion opportunities and budgets for social events.

The remuneration committee of the Company is responsible for reviewing and determining the remuneration packages of the Directors and senior management members with reference to the salaries paid by comparable companies, time commitment and responsibilities, employment conditions elsewhere in the Group and the desirability of performance-based remuneration. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors and senior management members. The Company adopted a share option scheme (the "**Share Option Scheme**") on 24 November 2017, under which the Company may grant options to, among others, any employees (full-time or part-time) or Directors with a view to rewarding them for their contributions to the Group, giving incentive to them for optimising their performance and efficiency and attracting as well as retaining those whose future contributions are important to the long-term growth and profitability of the Group. Since the adoption of the Share Option Scheme and up to the date of this result announcement, no share options have been granted pursuant to the Share Option Scheme.

Major and connected transactions

During the year under review, the Group had entered into transactions which constituted major transaction and connected transactions under Chapters 19 and 20 of the GEM Listing Rules with Mr. Wong Kwok Wai, Albert, a Director, details of which please refer to the announcement titled "Major and Connected Transactions — Provision of Financial Assistance to Connected Person" issued by the Company dated 31 March 2020, 21 April 2020, 8 May 2020, 5 June 2020, 3 July 2020, 14 August 2020, 18 September 2020, 16 October 2020, 20 November 2020, 17 December 2020, 28 January 2021, the circular dated 16 February 2021.

Compliance with laws and regulations

Save for the matter in relation to the above paragraph of “Major and Connected Transactions” and the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Group has in all material respects complied with all relevant laws, rules and regulations that have a significant impact on the Group and its operations in Hong Kong and the PRC.

Environmental policies and performance

In order to better integrate the concept of social responsibility into the Group’s strategy and decision-making and to further guide the Group to develop a socially responsible practice, the Group has established an environmental, social and governance (“ESG”) report preparation team. While preparing the report, the Group strives to incorporate the notion of sustainable development into its daily operations.

Meanwhile, the Group has established a systematic stakeholder communication channel with the aim to facilitate positive interactions with the Group’s stakeholders, actively respond to relevant litigation issues and promote quality, effective and sustainable growth. Throughout the year ended 31 December 2020, the Group has maintained its business integrity and dedication to environmental protection, while continuously striving to improve quality management and employee care.

For further information in relation to the Group’s ESG practices, please refer to the Group’s separate ESG report, which is expected to be published on the websites of the Stock Exchange and the Company within three months after the publication of this result announcement.

Relationship with stakeholders

Employees are considered to be one of the most important factors that contribute to the productivity of the Group. Employees of the Group are mainly provided with on-the-job training as well as remuneration packages and allowances.

The Group also communicates closely with its customers to obtain valuable feedback and provides them with information about the Group’s products and trends in the sewing threads market. The Group has maintained business relationships with its five largest customers for a period ranging from approximately five to twenty years, respectively. Likewise, the Group has also established stable relationships with its suppliers. As such, the Directors believe that the Group has developed a trustworthy and reliable reputation as well as a strong partnership with its customers and suppliers.

Use of proceeds

As disclosed in the Prospectus, the net proceeds from the Share Offer were approximately HK\$40.7 million, after deducting commission and expenses borne by the Company in connection with the Share Offer (the “**Net Proceeds**”). As at 31 December 2020, the unutilised Net Proceeds amounted to approximately HK\$8.7 million.

As at 31 December 2020, the Net Proceeds had been applied and utilised as follows:

	Net Proceeds available <i>HK\$ million</i>	Utilised <i>HK\$ million</i>	Unutilised <i>HK\$ million</i>	Expected timeline for utilising the unutilised amount ^(Note 1)
Upgrading the Group’s machinery for the production of 100% spun polyester sewing threads for industrial use	20.3	3.1	17.2	on or before 31 December 2021
Upgrading the Group’s machinery for the production of 100% spun polyester sewing threads for domestic use	7.7	2.2	5.5	on or before 31 December 2021
Acquiring new cone winding machines	4.1	0.5	3.6	on or before 31 December 2021
Acquiring new machinery for the production of nylon threads	3.7	1.3	2.4	on or before 31 December 2021
Setting up a sales office in Zhejiang province	1.2	1.2	–	
Working capital and other general corporate purposes of the Group	3.7	3.7	–	
	40.7	12.0	28.7	
Repayment of bank facilities ^(Note 2)	–	20.0	–	
	<u>40.7</u>	<u>32.0</u>	<u>8.7</u>	

Note 1: The expected timetable for fully utilising the unutilised Net Proceeds is determined based on the Group's best estimate of future market conditions, and is subject to change depending on current market conditions and future market developments.

Note 2: The Group made use of approximately HK\$20 million out of the unutilised Net Proceeds for the repayment of the banking facilities. Details of the aforesaid repayment are set out in the Company's announcement dated 31 March 2020.

All the banking facilities have been cancelled by the bank with effect from 29 April 2020. The Group is making its best efforts to obtain new banking facilities for its operation and to continue with the implementation of the planned use of the Net Proceeds.

Below is an analysis comparing the future plans and use of proceeds contained in the Prospectus from the Listing Date up to 31 December 2020:

Business strategy	Implementation plan	Actual progress as at 31 December 2020
Upgrading the Group's machinery for the production of 100% spun polyester sewing threads for industrial use	— Purchase eight waxing and winding machines for the production of 100% spun polyester sewing threads for industrial use	The Group has purchased and is operating two waxing and winding machines for the production of 100% spun polyester sewing threads for industrial use.
Upgrading the Group's machinery for the production of 100% spun polyester sewing threads for domestic use	— Purchase two machines for the production of 100% spun polyester sewing threads for domestic use	The Group has purchased and is operating one machine for the production of 100% spun polyester sewing threads for domestic use.
Acquiring new machinery for the production of nylon threads	— Purchase five machines for the production of nylon threads	The Group has purchased and is operating three machines for the production of nylon threads.
Setting up a sales office in Zhejiang province	— Lease suitable premises for the Group's sales office — Renovate the sales office — Purchase office equipment	The Group has set up a sales office in Zhejiang Province, which is currently in full operation.

Business strategy	Implementation plan	Actual progress as at 31 December 2020
Acquiring new cone winding machines	— Order two cone winding machines to facilitate the production lines for 100% spun polyester sewing threads and paying the balance for two cone winding machines	The Group has purchased and is operating one cone winding machine.

Future plans and prospects

The future plans and use of proceeds schedule disclosed in the Prospectus were formulated based on the best estimation of the market conditions after the Listing. The discrepancy between the planned use of the Net Proceeds and the actual use mainly arose as a result of the actual market conditions affecting the Group after the Listing. The continuing trade conflict between the U.S. and the PRC, the PRC’s gradual economic slowdown and the recent outbreak of COVID-19 have presented the Group with uncertainties and multiple challenges, rendering the need for the Group to be prudent in implementing its future plans as set out in the Prospectus. The Directors believed that a strict adherence to the implementation plan will increase the production capacity of the Group, while the additional machinery may lead to a provision for impairment for such machinery to be made in the future.

Meeting the demands of its customers as to high quality and differentiated products is one of the Group’s priorities in order to maintain long-term business relationships with its customers. Further, the Directors believe that there are considerable business opportunities in the sewing threads industry in the long term. To satisfy its customers’ potential needs and to capture the business opportunities in the sewing threads industry, the Group will continue to implement the expansion plans set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus in a prudent and conservative manner in light of the market conditions at the time.

The Directors will continue to carefully monitor and assess the situation and, if the expansion plans no longer suit the operation and the future development of the Group, the Directors may evaluate and modify them so as to ensure that the Group’s business strategies are in the best interests of the Company and the Shareholders as a whole.

OTHER INFORMATION

Interests and short positions of directors and chief executive in the shares, underlying shares and debentures of the company and any associated corporation

As at 31 December 2020, the interests or short positions of each of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”), which were (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required to be recorded in the register required to be kept under section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long position in the Shares and underlying Shares

Name of Director	Nature of interest/ Holding capacity	Number of ordinary shares held	Percentage of issued share capital of the Company (Note 1)
Mr. Wong Kwok Wai, Albert	Interest of a controlled corporation	120,000,000 (Notes 2)	50%
Mr. Leung King Yue, Alex	Beneficial owner	10,000,000	4.17%

Notes:

1. As at the date of this result announcement, the Company’s issued ordinary share capital was HK\$12,000,000 divided into 240,000,000 Shares of HK\$0.05 each.
2. Three Gates Investment Limited (“**Three Gates Investment**”), a company incorporated in the British Virgin Islands on 15 August 2016 is wholly and beneficially owned by Mr. Wong, who is the chairman and an executive director of the Company. Therefore, Mr. Wong is deemed to be interested in 120,000,000 Shares held by Three Gates Investment by virtue of the SFO.

Except as disclosed above, as at 31 December 2020, none of the Directors or the chief executive of the Company had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange according to rules 5.46 to 5.67 of the GEM Listing Rules.

Long position in the Shares and underlying Shares

Name of Substantial Shareholder	Nature of interest/ Holding capacity	Number of ordinary shares held	Percentage of issued share capital of the Company (Note 1)
Three Gates Investment	Beneficial owner	120,000,000 (Notes 2, 3)	50%
Gold-Face Finance Limited	Person having a security interest in Shares	80,000,000 (Notes 3, 4)	33.33%
Upbest Credit and Mortgage Limited	Person having a security interest in Shares	80,000,000 (Notes 3, 4)	33.33%
Good Foundation Company Limited	Person having a security interest in Shares	80,000,000 (Notes 3, 4)	33.33%
Upbest Strategic Company Limited	Person having a security interest in Shares	80,000,000 (Notes 3, 4)	33.33%
Upbest Financial Holdings Limited	Person having a security interest in Shares	80,000,000 (Notes 3, 4)	33.33%
Upbest Group Limited	Person having a security interest in Shares	80,000,000 (Notes 3, 4)	33.33%
Mr. Leung Tat Chi	Beneficial owner	17,460,466 (Notes 5, 6)	5.68%
UBA Investments Limited	Interest of controlled corporation	16,852,711 (Notes 5, 7)	5.48%
Loyal Grace Investments Limited	Beneficial owner	16,852,711 (Notes 5, 7)	5.48%
DT Capital Limited	Interest of controlled corporation	16,852,711 (Notes 5, 8)	5.48%
Key Summit Enterprises Limited	Beneficial owner	16,852,711 (Notes 5, 8)	5.48%
Mr. Leong Chi Wai	Interest of controlled corporation	17,875,972 (Notes 5, 9)	5.82%
Glory Radiance International Limited	Beneficial owner	17,875,972 (Notes 5, 9)	5.82%

Notes:

- As at the date of this result announcement, the Company's issued ordinary share capital was HK\$12,000,000 divided into 240,000,000 Shares of HK\$0.05 each.

2. Three Gates Investment is wholly and beneficially owned by Mr. Wong, who is the chairman and an executive Director of the Company. Therefore, Mr. Wong is deemed to be interested in 120,000,000 Shares held by Three Gates Investment by virtue of his 100% shareholding interest in Three Gates Investment.
3. 80,000,000 Shares held by Three Gates Investment have been charged in favour of Gold-Face Finance Limited (“**Gold-Face**”) as security for a loan granted in favour of Mr. Wong Kwok Wai, Albert, the chairman, chief executive officer, executive director and controlling shareholder of the Company.
4. As Gold-Face is wholly-owned by Upbest Credit and Mortgage Limited, which in turn is wholly-owned by Upbest Strategic Company Limited and Good Foundation Company Limited in equal parts, which in turn are both wholly-owned by Upbest Financial Holdings Limited, which in turn is wholly-owned by Upbest Group Limited, Upbest Credit and Mortgage Limited, Upbest Strategic Company Limited, Good Foundation Company Limited, Upbest Financial Holdings Limited and Upbest Group Limited are all deemed to be interested in the security interest in the 80,000,000 Shares charged in favour of Gold-Face by virtue of the SFO.
5. A sale and purchase agreement (the “**Sale and Purchase Agreement**”) dated 18 August 2020 was entered between the Company, Mr. Leung Tat Chi (“**Mr. Leung**” or the “**Vendor A**”), Loyal Grace Investments Limited (“**Loyal Grace**” or the “**Vendor B**”), Key Summit Enterprises Limited (“**Key Summit**” or the “**Vendor C**”) and Glory Radiance International Limited (“**Glory Radiance**” or the “**Vendor D**”, together with Vendor A, Vendor B and Vendor C, the “**Vendors**”), pursuant to which the Company agreed to acquire (the “**Acquisition**”) and the Vendors agreed to sell the entire issued share capital of and all the obligations, liabilities and debts owing or incurred by Diamond Motto Limited (the “**Target Company**”), being a company incorporated in the British Virgin Islands with limited liability, to Vendor B, Vendor C and Vendor D, respectively, on or at any time prior to the completion of the Acquisition. Details of which are set out in the announcements of the Company dated 18 August 2020, 7 September 2020, 28 September 2020, 17 November 2020, 12 January 2021, 2 February 2021, and 9 February 2021, respectively and the circular of the Company dated 13 January 2021.
6. As at the date of the Sale and Purchase Agreement, 1,600,000 Shares was held by Mr. Leung Tat Chi. Pursuant to the Sale and Purchase Agreement, Mr. Leung Tat Chi agreed to sell and the Company agreed to purchase 165 issued shares in the Target Company, in exchange of the Company allotting and issuing 15,860,466 Shares to Mr. Leung Tat Chi (and/or its nominee(s)) as consideration. Details of which are set out in the announcements of the Company dated 18 August 2020, 7 September 2020, 28 September 2020, 17 November 2020 and 12 January 2021, respectively and the circular of the Company dated 13 January 2021. As such, Mr. Leung Tat Chi is deemed to be interested in an aggregate of 17,460,466 Shares under the SFO, although 13,860,466 Shares are to be issued and have not yet been issued as at 31 December 2020.
7. Loyal Grace is a direct and wholly-owned subsidiary of UBA Investments Limited. Pursuant to the Sale and Purchase Agreement, Loyal Grace agreed to sell and the Company agreed to purchase 50 issued shares in the Target Company and 100% of all the obligations, liabilities and debts owing or incurred by the Target Company to Loyal Grace on or at any time prior to the completion of the Acquisition, in exchange of the Company allotting and issuing 16,852,711 Shares to Loyal Grace Investments Limited (and/or its nominee(s)) as consideration. UBA Investments Limited is deemed to be interested in the 16,852,711 Shares to be allotted and issued to Loyal Grace pursuant to the Sale and Purchase Agreement for the purpose of the SFO as at 31 December 2020.

8. Key Summit is a direct and wholly-owned subsidiary of DT Capital Limited. Pursuant to the Sale and Purchase Agreement, Key Summit agreed to sell and the Company agreed to purchase 50 issued shares in the Target Company and 100% of all the obligations, liabilities and debts owing or incurred by the Target Company to Key Summit on or at any time prior to the completion of the Acquisition, in exchange of the Company allotting and issuing 16,852,711 Shares to Key Summit (and/or its nominee(s)) as consideration. DT Capital Limited is deemed to be interested in the 16,852,711 Shares to be allotted and issued to Key Summit pursuant to the Sale and Purchase Agreement for the purpose of the SFO as at 31 December 2020.
9. Glory Radiance is wholly and beneficially owned by Mr. Leong Chi Wai. Pursuant to the Sale and Purchase Agreement, Glory Radiance agreed to sell and the Company agreed to purchase 35 issued shares in the Target Company and all the obligations, liabilities and debts owing or incurred by the Target Company to Glory Radiance on or at any time prior to the completion of the Acquisition, in exchange of the Company allotting and issuing 17,875,972 Shares to Glory Radiance (and/or its nominee(s)) as consideration. Mr. Leong Chi Wai is deemed to be interested in the 17,875,972 Shares to be allotted and issued to Glory Radiance pursuant to the Sale and Purchase Agreement for the purpose of the SFO as at 31 December 2020.

Except as disclosed above, as at 31 December 2020, the Directors are not aware of any interests and short positions owned by any other parties, other than a Director or the chief executive of the Company who held interests or short positions in the shares and the underlying shares of the Company, which were required to be recorded under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Corporate Governance Practices

The Board believes that cultivating and maintaining a culture focused on good corporate governance is essential to effect strong business growth and continue the efficient management of the Company. The Directors are of the view that strong corporate governance practices can safeguard the interests of and ensure accountability to the shareholders of the Company (the “**Shareholders**”) as a whole.

The corporate governance code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules has been adopted by the Board. Nevertheless, the Directors are committed to regularly reviewing its corporate governance practices to ensure conformity with the standard set out in the CG Code, as well as meeting the rising expectation of the Shareholders and other stakeholders of the Company.

Except for the deviation from code provision A.2.1 of the CG Code, the Board is of the view that the Company has complied with the code provisions for the year ended 31 December 2020.

Mr. Wong Kwok Wai, Albert is the chairman of the Board and the chief executive officer of the Company and has been involved in the daily operations and management of the Group since 2008. The Directors consider that vesting the roles of the chairman of the Board and the chief executive officer of the Company in Mr. Wong will ensure strong and consistent leadership, facilitate the Group's business strategies and boost the effectiveness of its operation. The Board will continue to review this arrangement and consider splitting the roles of the chairman of the Board and the chief executive officer of the Company when such role splitting is beneficial to the Group as a whole.

Model Code for Directors' Securities Transactions

The Company has adopted the standard of dealings regarding securities transactions by the Directors equivalent to the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Directors have all confirmed, having been made specific enquiry by the Company, that they have complied with the required standard of dealings and the required standard concerning securities transactions by the Directors during the year ended 31 December 2020.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Directors' and Controlling Shareholders' Interests in Competing Businesses

The Directors and the controlling shareholders of the Company have confirmed that for the year ended 31 December 2020 and up to the date of this announcement, none of the Directors, controlling Shareholders or any of their respective close associates (as defined in the GEM Listing Rules) engaged in any businesses that compete or may compete with the business of the Group, or had any other conflict of interest with the Group.

On 24 November 2017, each of Mr. Wong Kwok Wai, Albert and Three Gates Investment, being the controlling Shareholders, entered into a non-competition undertaking in favour of the Company, details of which were set out in the section headed "Relationship with our Controlling Shareholders — Non-competition Undertaking" in the Prospectus. Such undertakings have been fully complied with and enforced during the year ended 31 December 2020 and up to the date of this announcement.

The Board confirms that as at the date of this announcement, no other matters are required to be brought to the attention of the Shareholders and the potential investors.

Further, the independent non-executive Directors confirm that they have reviewed the enforcement of such undertakings and conclude that there are no outstanding issues regarding the undertakings that need to be raised with the Shareholders and the Company.

Events after the year ended 31 December 2020

Completion of the major transaction

As disclosed in the announcements of the Company dated 18 August 2020, 7 September 2020, 28 September 2020, 20 October 2020, 17 November 2020, 17 December 2020, 12 January 2021, 2 February 2021 and the circular of the Company dated 12 January 2021, the Company entered into a sale and purchase agreement in relation to the acquisition of the entire issued share capital of Diamond Motto Limited. The Company has completed the acquisition on 9 February 2021 and disclosed in the announcement of the Company dated 9 February 2021.

Subscription and placing of new shares under general mandate

On 19 January 2021, the Company entered into the subscription agreement with the subscriber, pursuant to which the subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 24,000,000 new Shares at the subscription Price of HK\$0.30 per subscription share. Also, the placing agent and the Company entered into the placing agreement, pursuant to which the Company has conditionally agreed to place through the placing agent, on a best effort basis, up to 24,000,000 placing shares at the placing price of HK\$0.30 per placing share to not less than six Placees who and whose beneficial owners shall be Independent Third Parties. The subscription and placing of the new shares has been completed on 11 February 2021. Details of the subscription and placing of the new shares are set out in the announcements of the Company dated 19 January 2021, 2 February 2021 and 11 February 2021.

Sufficiency of Public Float

The Directors confirm that during the year ended 31 December 2020 and up to the date of this announcement, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has complied with the minimum public float as required under the GEM Listing Rules.

Audit Committee

The Audit Committee was established pursuant to rules 5.28 to 5.33 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee is mainly responsible for reviewing financial information, monitoring the Company's financial reporting system and internal control procedures and maintaining the relationship with the Company's auditors.

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Sung Alfred Lee Ming (the chairman), Mr. Chan Tsun Choi, Arnold and Mr. Chow Chin Hang, Joel. No member of the current Audit Committee is a member of the previous independent auditor of the Company. The Audit Committee has reviewed this announcement as well as the consolidated results of the Group for the year ended 31 December 2020.

Publication of Information on the Website of the Stock Exchange

This announcement will be published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.shenyoutholdings.com). The annual report for the year ended 31 December 2020 containing all the information required by the GEM Listing Rules will be published on the respective websites of the Stock Exchange and the Company and despatched to the Shareholders in due course.

Scope of Work of Independent Auditor

The figures in respect of the Group's results for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

Annual General Meeting and Closure of the Register of Members

The forthcoming annual general meeting (the “AGM”) of the Company will be held on Friday, 7 May 2021 at Unit 1603–1604, 16/F, Causeway Bay Plaza 1, 489 Hennessy Road, Causeway Bay, Hong Kong. For the purpose of determining Shareholders’ entitlement to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from Tuesday, 4 May 2021 to Friday, 7 May 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, all transfer of Shares accompanied by the relevant share certificates and transfer documents must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Monday, 3 May 2021.

By order of the Board
Shen You Holdings Limited
Wong Kwok Wai, Albert

Chairman, chief executive officer and executive Director

Hong Kong, 26 March 2021

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Wong Kwok Wai, Albert, Mr. Chan Yiu Tung, Enoch and Mr. Leung King Yue, Alex; and three independent non-executive Directors, namely, Mr. Sung Alfred Lee Ming, Mr. Chan Tsun Choi, Arnold and Mr. Chow Chin Hang, Joel.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.shenyouholdings.com.