SHENGLONG
盛 龙

SHENGLONG SPLENDECOR INTERNATIONAL LIMITED
盛龍錦秀國際有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8481)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the "**Board**") of directors (the "**Directors**") of Shenglong Splendecor International Limited (the "**Company**" and its subsidiaries, collectively the "**Group**") is pleased to announce the audited condensed consolidated results of the Group for the year ended 31 December 2021. This announcement, containing the full text of the 2021 annual report of the Company, complies with the relevant requirements of The Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited ("**GEM Listing Rules**") in relation to information to accompany preliminary announcement of annual results. Printed version of the Company's 2021 annual report will be delivered to the shareholders of the Company and available for viewing on the websites of GEM at www.hkgem.com and of the Company at www.splendecor.com on or before 30 March 2022.

By order of the Board
Shenglong Splendecor International Limited
Sheng Yingming
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 22 March 2022

As at the date of this announcement, the Board comprises (i) four executive Directors, namely Mr. Sheng Yingming, Mr. Tan Chee Kiang, Mr. Fangxu and Ms. Sheng Sainan and (ii) three independent non-executive Directors, namely Mr. Ma Lingfei, Mr. Tso Ping Cheong Brian and Ms. Huang Yueyuan.

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

This announcement will remain on the "Latest Company Announcements" page of the GEM website (http://www.hkgem.com) for at least 7 days from the date of its publication and on the Company's website (http://www.splendecor.com).

In case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Shenglong Splendecor International 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 report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Sheng Yingming
Mr. Tan Chee Kiang
Mr. Fang Xu
Ms. Sheng Sainan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tso Ping Cheong Brian
Mr. Ma Lingfei
Ms. Huang Yueyuan

AUTHORISED REPRESENTATIVES

Mr. Sheng Yingming
Mr. Chan Wai Lung

COMPLIANCE OFFICER

Mr. Tan Chee Kiang

COMPANY SECRETARY

Mr. Chan Wai Lung

AUDIT COMMITTEE

Mr. Tso Ping Cheong Brian *(Chairman)*
Mr. Ma Lingfei
Ms. Huang Yueyuan

REMUNERATION COMMITTEE

Ms. Huang Yueyuan *(Chairlady)*
Mr. Ma Lingfei
Mr. Tso Ping Cheong Brian

NOMINATION COMMITTEE

Mr. Ma Lingfei *(Chairman)*
Mr. Tso Ping Cheong Brian
Ms. Huang Yueyuan

LEGAL ADVISER AS TO HONG KONG LAWS

Llinks Law Offices LLP

AUDITOR

Confucius International CPA Limited
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

PRINCIPAL BANKERS

China Construction Bank Corporation
Shanghai Pudong Development Bank Corporation

REGISTERED OFFICE

P.O. Box 1350
Windward 3, Regatta Office Park
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3201, 32/F, Alexandra House
18 Chater Road, Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

No. 55 Shangyang Road, Yangdai Village
Jinnan sub-district, Lin'an, Hangzhou, Zhejiang
PRC (effective from 10 September 2021)

No. 8 Shangguafan Road, Jinnan sub-district
Lin'an, Hangzhou, Zhejiang
PRC (until from 10 September 2021)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park, P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.splendecor.com

STOCK CODE

8481.HK

FINANCIAL HIGHLIGHTS

	Notes	2021	2020	Changes
Results				
Revenue *(RMB'000)*		**494,958**	368,914	+34.2%
Profit before income tax *(RMB'000)*		**14,657**	9,710	+50.9%
Profit attributable to owners of the Company *(RMB'000)*		**13,596**	9,272	+46.6%
Earnings per share (Basic and diluted) *(RMB cents)*		**2.72**	1.85	+0.87
Financial Position				
Non-current assets *(RMB'000)*		**376,161**	301,943	+24.6%
Current assets *(RMB'000)*		**217,784**	199,108	+9.4%
Non-current liabilities *(RMB'000)*		**52,256**	95,978	-45.6%
Current liabilities *(RMB'000)*		**326,300**	203,676	+60.2%
Total equity *(RMB'000)*		**215,389**	201,397	+6.9%
Key financial ratios				
Gross profit margin	*1*	**19.1%**	22.8%	-3.7%
Net profit margin	*2*	**2.7%**	2.5%	+0.2%
Interest coverage	*3*	**3.0 times**	2.5 times	+0.5 times
Gearing ratio	*4*	**0.88**	0.69	+0.19
Inventory turnover days	*5*	**38.8 days**	58.6 days	-19.8 days
Trade receivables turnover days	*6*	**78.9 days**	96.8 days	-17.9 days
Trade payables turnover days	*7*	**54.3 days**	77.0 days	-22.7 days

Notes:

(1) Gross profit margin is calculated by the gross profit divided by the revenue and multiplied by 100.0%.

(2) Net profit margin is calculated by the net profit attributable to owner of the Company divided by the revenue and multiplied by 100.0%.

(3) Interest coverage is calculated by the profit before interest and tax divided by the finance costs (interest).

(4) Gearing ratio is calculated based on the total bank borrowings divided by the total equity.

(5) Inventory turnover days are calculated as the average of the beginning and ending balance of inventories divided by cost of sales and multiplied by the number of days in the year.

(6) Trade receivables turnover days are calculated as the average of the beginning and ending trade receivables balance divided by revenue and multiplied by the number of days in the year.

(7) Trade payables turnover days are calculated as the average of the beginning and ending trade payables balance divided by cost of sales and multiplied by the number of days in the year.

CHAIRMAN'S STATEMENT

Dear shareholders

On behalf of the board of Directors of the Company (the "Board"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 (the "Year").

FINANCIAL PERFORMANCE

The Group continued to record business growth with total revenue achieved a significant growth of 34.2% and reached at Renminbi ("RMB") 495.0 million for the Year (For the year ended 31 December 2020 ("FY2020"): RMB368.9 million). However, the unit prices of our major production materials, including raw papers and chemicals, were boosted up fiercely throughout the Year which has significantly diminished the Group's gross profit margin. Therefore, the net profit of the Group only recorded a slight increase of approximately RMB4.3 million from approximately RMB9.3 million for FY2020 to approximately RMB13.6 million for the Year despite there was significant growth of revenue. Such increase in net profit was primarily attributable to the increase in gross profits derived by the revenue growth and setting off the increase in selling expenses for facilitating sales order and the increase in interest expenses attributable to the increase in the amount of bank borrowings.

CORPORATE EVENT

During the Year, the construction of the new factory premises, including the main office building block and furnished staff quarters, was completed. All the new production facilities, sales and marketing and administration departments were relocated to the new factory premises. Following the relocation, the Group will be able to optimise the management and production processes. The relocation will further improve our production quality and operating efficiency. The construction is consistent with the Group's strategy and will create enhanced value to the Group. It will foster long-term sustainable growth and improve the competitiveness of the Group.

OUTLOOK

The business environment is anticipated to becoming more challenging in the short run as a result of the ongoing novel coronavirus ("COVID-19") pandemic and its variants, such as Delta and Omicron. The unsynchronised global pandemic prevention and control, uneven economic recovery, intensified political and economic tension have all increased uncertainty. Nevertheless, the decorative printing material industry has experienced steady growth over the Year as the demand for decorative paper increased persistently. Going forward, the Group will continue to focus on expanding our business operations. We are confident to maintain our current market position by upgrading our research and development and production technologies, and reinforcing our sales and marketing capability, with a view to further improve the financial returns for our shareholders.

APPRECIATION

On behalf of the Board, I would like to thank the shareholders for their continued support and to extend my thanks to every management and staff at all levels for their contributions and efforts over the Year. I would also like to express our sincere appreciation to all my fellow Directors for their incisive contributions as we continue our efforts on positioning the Group and we look forward to the years ahead.

Sheng Yingming
Chairman and Chief Executive Officer
Hong Kong, 22 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and sales of decorative printing materials products which mainly comprise of (i) decorative paper; (ii) melamine impregnated paper; (iii) finish foil paper; (iv) PVC furniture film; and (v) PVC flooring film. The Group served over 500 customers in both domestic and overseas markets for the Year. The overseas sales reached over 40 countries in Asia, North America, South America, Europe, Oceania and Africa.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Year was approximately RMB495.0 million (FY2020: RMB368.9 million), representing an increase of approximately 34.2% on a year-on-year basis. The increase in the Group's revenue was driven by the increase in the People's Republic of China (the "PRC") and overseas markets simultaneously. The demand from PRC customers remained strong and the Group derived an increase of approximately 35.0% of the revenue from the PRC market over FY2020. The revenue from overseas markets also recorded an increase of approximately 32.5% over FY2020 as the economy in the Group's major overseas markets gradually recovered from the adverse impact of COVID-19. The following table sets forth the revenues by products:

	For the year ended 31 December			
	2021		2020	
	RMB'000	%	RMB'000	%
Decorative paper	240,808	48.6	172,379	46.7
Melamine impregnated paper	186,140	37.6	133,052	36.1
Finish foil paper	13,829	2.8	11,614	3.2
PVC furniture film	3,798	0.8	4,870	1.3
PVC flooring film	47,778	9.7	46,256	12.5
Others (Note)	2,605	0.5	743	0.2
	494,958	100.0	368,914	100.0

Note: Others mainly include laminated board and plate rollers.

The increase in total revenue mainly derived from increase in sales of decorative paper, melamine impregnated paper and finish foil paper. Revenue from sales of decorative paper, melamine impregnated paper and finish foil paper increased by approximately 39.7%, 39.9% and 19.1%, respectively, on a year-to-year basis, as a result of the increase in sales in the PRC and overseas markets.

Cost of sales

The cost of sales increased by approximately RMB115.8 million or approximately 40.7%, from approximately RMB284.8 million for FY2020 to approximately RMB400.6 million for the Year, which was primarily due to increase in the unit prices of production materials and increase in the production volume during the Year.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB10.2 million, or approximately 12.2%, from approximately RMB84.2 million for FY2020 to approximately RMB94.4 million for the Year, primarily due to the corresponding increase in the Group's revenue during the Year. The unit prices of production materials raised during the Year which increased the production cost of the Group and led to the decrease of the gross profit margin for the Year to approximately 19.1% (the gross profit margin for FY2020: 22.8%).

Selling expenses

The Group's selling expenses mainly comprised of (i) transportation expenses; (ii) wages, salaries and welfare of our sales staff; (iii) travelling and entertainment expenses; (iv) marketing and exhibition expenses; (v) sales commission; and (vi) other selling expenses. The selling expenses increased by approximately RMB8.3 million or 31.8% from approximately RMB25.9 million for FY2020 to approximately RMB34.2 million for the Year. The increase was primarily attributable to the (i) increase in salaries and welfare for our sales staff, (ii) increase in the sale commission and marketing and exhibition expenses in order to facilitate sales orders, and (iii) increase in licensing fee incurred from the increase in the sale of relevant licensed products.

Administrative expenses

The administrative expenses decreased by approximately RMB3.0 million or 7.0% from approximately RMB42.7 million for FY2020 to approximately RMB39.7 million for the Year. The decrease was mainly attributable to the decrease in travelling, entertainment and professional service expenses as the management exercises stringent control over the corresponding expenditure.

Net impairment losses on financial assets

Net impairment losses on financial assets decreased by approximately RMB0.1 million, from approximately RMB0.3 million for FY2020 to approximately RMB0.2 million for the Year, mainly arising from the expected credit loss of trade and other receivables at amortised cost. The expected credit loss was derived with reference to the payment profiles of the sales record and the corresponding historical credit losses experienced within the Year. The historical loss rates were then adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Other income and other gains – net

The Group's other incomes and other gains – net increased by approximately RMB0.7 million, to approximately RMB1.8 million for the Year from approximately RMB1.1 million for FY2020, primarily resulting from the increase in rental income and decrease in foreign exchange loss due to the depreciation of US dollar ("USD") against RMB.

Finance costs – net

The finance costs – net increased by approximately RMB0.8 million or 12.3% from approximately RMB6.7 million for FY2020 to approximately RMB7.5 million for the Year. This was primarily due to (i) the increase in interest expenses attributable to the increase in the amount of bank borrowings; and (ii) the decrease in the amount of capitalisation of borrowings costs because the construction of certain buildings and production lines in the PRC has been completed.

Income tax expense

The income tax expense increased from approximately RMB0.4 million for FY2020 to approximately RMB1.1 million for the Year, which was mainly due to the increase in profit before income tax.

Profit attributable to owners of the Company

As a result of the foregoing, the Group recorded a profit attributable to owners of the Company of approximately RMB13.6 million for the Year as compared to a profit of approximately RMB9.3 million for FY2020, representing an increase of approximately 46.6% as compared to FY2020.

PROSPECTS

During the Year, although global economy recorded constantly recovery, it has not fully recovered to pre-pandemic level. There remains a significant degree of uncertainty over the severity and duration of the global outbreak, as well as the trajectory of the economic recovery due to the subsequent outbreaks of new or existing COVID-19 variants. To control the spread of COVID-19 pandemic, governmental authorities in the PRC and other countries have implemented and continues to implement a series of precautionary measures such as lockdowns, quarantines, travel restrictions, restricting movement of people by pronouncing “stay-home” orders. The “stay-home” orders have led to an increasing demand for home improvement and furnishing, which in turn boost demand for furniture decoration materials. PRC, as one of the main manufacturing country of decorative paper in the world, has gradually increased its international competitiveness and enhanced its international reputation. The products of PRC companies have gradually been recognised by the customers around the world, which provides the Group with a favorable opportunity in exploring its overseas markets. The Group poured resources into its overseas markets which derived the corresponding significant business growth during the Year. Simultaneously with the benefit from the strong domestic demand in PRC, the Group continued to record overall business growth and the Group’s revenue for the Year recorded an increase of approximately 34.2% over FY2020. However, the fluctuation of unit prices of our major production materials will undoubtedly put considerable pressure on the Group’s profitability. The Group will closely monitor the product pricing and costs in order to maximise the profit margins and maintain profitability.

After the completion of the new factory premises in mid of the Year, all the new production facilities, sales and marketing and administration departments were centralised into one location, the resources utilisation can be intensified to enhance operating efficiency. The Group will keep evaluating its manufacturing technique and equipment in order to maintain its production capacity and flexibility. We will seek for continuous optimisation in quality control measure and procedure to maintain the product quality and customer satisfaction. The Group is also committed to enhance the research and development capabilities, and to optimise product mix, color pattern and specification. We will make use of the upgraded and automated facility, reinforce planning in the production processes and improve resources utilisation efficiency to better control production costs.

Going forward, the Group will continue to grasp the advantages of the existing decorative paper industry and keep focusing on sustainable strategic domestic customers in the PRC and the growth of potential overseas markets. Taking advantage of the well-recognised reputation in the market and the continuous effort made by the Group’s management and staff at all levels, the Directors are confident to capture more market shares in the decorative printing materials industry and keep business growth.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had current assets of approximately RMB217.8 million (2020: RMB199.1 million) which comprised cash and cash equivalents of approximately RMB13.1 million as at 31 December 2021 (2020: RMB14.8 million). The Group had current liabilities amounted to approximately RMB326.3 million as at 31 December 2021 (2020: RMB203.7 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was approximately 0.67 times as at 31 December 2021 (2020: 0.98 times).

Notwithstanding the Group's current liabilities exceeded its current assets by approximately RMB108.5 million (2020: approximately RMB4.6 million) as at 31 December 2021, after taking into account the continuous availability of bank facilities, the successful renewal of bank facilities upon expiry, and other measures as mentioned in note 2.1.1 to the consolidated financial statements, the Directors are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from the date of approval for issue of these consolidated financial statements.

As at 31 December 2021, the Group's total bank borrowings amounted to approximately RMB190.1 million (2020: RMB139.0 million), representing an increase of approximately 36.8% as compared to that of 31 December 2020. Accordingly, the gearing ratio of the Group, calculated based on the total bank borrowings divided by the total equity, was approximately 0.88 (2020: 0.69).

The Group adopted a prudent treasury policy and thus maintained a healthy liquidity position throughout the Year. 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 other commitments can meet its funding requirements from time to time.

FINANCIAL RATIOS

During the Year, the inventory turnover days of the Group slightly decreased to approximately 38.8 days (2020: 58.6 days). Such decrease was mainly attributable to the fact that the Group maintained a low inventory level even though there was an increase in revenue over FY2020 . The Group's inventories decreased by approximately 8.2% to approximately RMB40.8 million as at 31 December 2021 from approximately RMB44.4 million as at 31 December 2020.

Trade receivables turnover days of the Group during the Year decreased to approximately 78.9 days (2020: 96.8 days),as the Group maintained strict credit control for the customers. Trade receivables as at 31 December 2021 increased by approximately RMB8.9 million to approximately RMB111.4 million (31 December 2020: RMB102.5 million).

Trade payables turnover days of the Group for the Year slightly decreased to approximately 54.3 days (2020: 77.0 days). The trade payables of the Group decreased to approximately RMB58.9 million as at 31 December 2021 (31 December 2020: RMB60.3 million). The Group will continue to maintain solid relationships with its suppliers.

FOREIGN EXCHANGE EXPOSURE

The Group mainly operates in the PRC, but a significant portion of its sales is made to foreign countries, and thus the Group is exposed to foreign currency risks arising from various currency exposures, mainly with respect to USD, Euro and Hong Kong dollars. The Group regularly and closely monitors the level of foreign exchange risk exposures and will make necessary hedging arrangements to minimise its foreign currency exposure arising from the change in foreign exchange in the future.

As a result of depreciation of USD against RMB, the Group recorded a net foreign exchange loss of approximately RMB1.3 million during the Year, compared to a net foreign exchange loss of approximately RMB2.5 million for FY2020.

During the Year, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign currency risk.

INFORMATION ON EMPLOYEES

As at 31 December 2021, the Group had 417 employees (2020: 403 employees), including the executive Directors. The Group recorded staff costs (including Directors' remuneration) of approximately RMB62.4 million (2020: RMB46.6 million). Remuneration is determined with reference to market norms and the performance, qualification and experience of individual employee.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. The Group also operates a defined contributions to Mandatory Provident Fund scheme (the "MPF Scheme") for its employees in Hong Kong and provides its PRC employees with welfare schemes (the "Welfare Schemes") as required by the applicable laws and regulations of the PRC. For the Year and FY2020, there were no forfeited contributions under the MPF Scheme and the Welfare Schemes which may be used by the Group to reduce the contribution payable in the future years. Details of the MPF Scheme and the Welfare Schemes are set out in note 2.22(a) to the consolidated financial statements of this annual report. The Group also encourages the employees to persist in on-the-job training.

MATERIAL ACQUISITIONS OR DISPOSALS

There were no significant investments held by the Company as at 31 December 2021, nor were there any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Year.

CHARGES ON ASSETS

As at 31 December 2021, the Group's bank borrowings that are secured by its assets were set out as below:

Land use rights with a total carrying amount of approximately RMB39.0 million (2020: RMB40.1 million) were pledged as collateral for the Group's borrowings.

Property, plant and equipment with a total carrying amount of approximately RMB157.5 million (2020: RMB46.7 million) were pledged as collateral for the Group's borrowings.

Deposit for acquisition of a property with a total carrying amount of approximately RMB16.3 million (2020: RMB Nil) were pledged as collateral for the Group's borrowings.

CAPITAL COMMITMENT

As at 31 December 2021, the capital commitments which the Group had contracted for but were not provided for in the consolidated financial information in respect of the acquisition of property, plant and equipment amounted to approximately RMB27.5 million (2020: RMB37.8 million).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2021 and 2020.

RISK FACTORS FACED BY THE GROUP

The Group's key risk exposures are summarised as follows:

(i) The Group's business, financial condition and results of operation may be affected by the decrease or loss of overseas markets.

(ii) The Group relies on sales agents to approach new customers and liaise with existing customers. The failure to effectively manage and maintain a good relationship with the sales agents may materially and adversely affect the Group's revenue and brand recognition.

(iii) Fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact the Group's operations and may affect its profitability.

(iv) The Group does not enter into long-term supply contracts with its suppliers so the production cost and schedule may be adversely affected if the Group fails to secure supply.

(v) If the Group is unable to maintain existing level of utilisation rates at the production facilities, the Group's margin and profitability may be materially and adversely affected.

Further details of the principal risks and uncertainties faced by the Company are set out in the section headed "Risk Factors" in the prospectus of the Company dated 30 June 2017 (the "Prospectus").

USE OF PROCEEDS

The Company was listed on GEM of the Stock Exchange on 17 July 2017 (the "Listing") and the net proceeds of the Listing were approximately RMB44.6 million (the "Net Proceeds"). As at 31 December 2020, the Net Proceeds have been fully utilised by the Group according to the allocation set out in the Prospectus.

Save as disclosed above, there was no issue for cash of equity securities (including securities convertible into equity securities) during the Year.

EVENT AFTER THE REPORTING PERIOD

There is no material event affecting the Group that occurred from 31 December 2021 to the date of this annual report.

FORWARD LOOKING STATEMENTS

This report contains forward looking statements with respect to the financial conditions, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Sheng Yingming (盛英明) ("Mr. Sheng"), aged 58, is the chief executive officer and the chairman of the Board. He is also a director of certain subsidiaries of the Group. He founded the Group in July 1993 and has over 20 years of experience in the decorative printing materials industry. Mr. Sheng is responsible for overall management, strategic development and major decision-making of the Group.

Prior to founding the Group, Mr. Sheng worked at Lin'an Ling Long Silk Factory* (臨安玲瓏絲廠) which was primarily engaged in manufacturing of bedding from September 1980 to July 1986, as the chief of supply and marketing section, and was primarily responsible for the procurement of raw materials, sales of products and maintaining customer relationships. During the period from August 1986 to August 1993, he was the chief of supply and marketing section at Lin'an No.2 Paper Mill* (臨安第二造紙廠), which was primarily engaged in manufacturing base papers, decorative papers and plates, and was primarily responsible for the procurement of raw materials, sales of products and updating the latest market trend.

He is the father of Ms. Sheng Sainan and the father-in-law of Mr. Fang Xu, both of whom are executive Directors.

Mr. Tan Chee Kiang (陳志賢), aged 65, has been appointed as an executive Director and compliance officer of the Company, with effect from 20 December 2019. Mr. Tan is responsible for overseeing the production and participating in the day-to-day management and operation of the Group. He joined the Group in March 2019 and currently also serves as the general manager of the Company.

Mr. Tan holds a master's degree in business administration from the University of Portsmouth in the United Kingdom. He has over 38 years of experience in manufacturing operational management. Before joining the Group, he successively served as the vice president of Bosch Power Tools Manufacturing Operations and Logistics, the regional president of Bosch Car Multimedia Division for ASEAN, and the technical director of Bosch Car Multimedia Division.

Mr. Fang Xu (方旭), aged 35, was appointed as an executive Director on 23 August 2016. He is responsible for overseeing the sales and marketing activities and participating in the day-to-day management and operation of the Group. He joined the Group in June 2012 as a production assistant, who was primarily responsible for assisting the head of production department in the management of production and has been the vice general manager of Zhejiang Shenglong Decoration Material Co., Ltd ("Shenglong Decoration") since June 2015.

Prior to joining the Group, Mr. Fang worked as a technician at Hangzhou Shenzhou Digital Co., Ltd.* (杭州神州數碼有限公司) which was an integrated IT services provider, who was primarily responsible for design and development of audio and video application systems from August 2010 to May 2012. Mr. Fang graduated from Hangzhou Dianzi University* (杭州電子科技大學) in the PRC with a bachelor's degree in integrated circuit design and integration system in June 2009.

He is the spouse of Ms. Sheng Sainan and the son-in-law of Mr. Sheng, both of whom are executive Directors.

* *for identification purposes only*

Ms. Sheng Sainan (盛賽男), aged 34, is responsible for overall financial management of the Group. She joined the Group in October 2012 as a director of Shenglong Decoration and is responsible for overseeing the financial management of Shenglong Decoration. She has been a deputy manager of the financial department of Shenglong Decoration since October 2013, who was primarily responsible for financial management and financial accounting. She completed courses in financial management professional accounting option and obtained a diploma of technology from British Columbia Institute of Technology in Canada in July 2013.

She is the spouse of Mr. Fang Xu and the daughter of Mr. Sheng, both of whom are executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tso Ping Cheong Brian (曹炳昌), aged 42, was appointed as an independent non-executive Director on 1 June 2018. He is responsible for providing independent advice to the Board. He is the chairman of the audit committee, and a member of the nomination committee and remuneration committee of the Company.

Mr. Tso has over 16 years of experience in accounting and financial management. From September 2003 to November 2008, he worked in Ernst & Young with last position as manager. From December 2008 to May 2010, he was the financial controller of Greenheart Group Limited (formerly known as Omnicorp Limited) (Stock code: 94). From May 2010 to August 2012, He was the senior vice president of Maxdo Project Management Company Limited. From January 2013 to present, he has been the sole proprietor of Teton CPA Company, an accounting firm.

Mr. Tso obtained his bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 2003. He obtained his master's degree in corporate governance from the Hong Kong Polytechnic University in October 2013. Mr. Tso is currently a practising and fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Chartered Governance Institute.

Mr. Tso served as an independent non-executive director of Larry Jewelry International Company Limited (Stock code: 8351) from October 2014 to September 2019. He is currently an independent non-executive director of Guru Online (Holdings) Limited (Stock code: 8121) since May 2014, Huasheng International Holding Limited (formerly known as Newtree Group Holdings Limited) (Stock code: 1323) since February 2015, EFT Solutions Holdings Limited (Stock code: 8062) since September 2019 and Maxicity Holdings Limited (Stock code: 2295) since November 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ma Lingfei (馬靈飛), aged 63, was appointed as an independent non-executive Director on 22 June 2017. He is responsible for providing independent advice to the Board. He is the chairman of the nomination committee, and a member of the audit committee and remuneration committee of the Company.

Mr. Ma, who has currently retired, was engaged in wood science and technology research before retirement. He worked as a professor at School of Engineering, Zhejiang A & F University* (浙江農林大學), and served as a deputy director of National Engineering Research Center for Comprehensive Utilisation of Wood Resources* (國家木質資源綜合利用工程技術研究中心) who was primarily engaged in the research of processing plate. Mr. Ma graduated from Zhejiang A & F University majoring in forestry in January 1982. He obtained a doctorate degree in agriculture from Kyoto University in Japan in November 1998. Since January 1982, Mr. Ma worked at Zhejiang A & F University as a lecturer and researcher of wood science and technology research. During the period from April 1999 to May 2002, Mr. Ma joined the Institute of Wood Technology, Akita Prefectural University in Japan as a temporary research scientist. From September 2007 to March 2008, he was a foreign visiting scholar* (招聘外國人學者) of Research Institute for Sustainable Humanosphere, Kyoto University in Japan.

Ms. Huang Yueyuan (黃月圓), aged 40, was appointed as an independent non-executive Director on 22 June 2017. She is responsible for providing independent advice to the Board. She is the chairlady of the remuneration committee, and a member of the audit committee and nomination committee of the Company.

She is currently working at the school of advanced research in mathematics of Zhejiang University* (浙江大學數學高等研究院) as a vice-president of administration* (行政副院長). From June 2006 to May 2010, she worked as a head tutor primarily responsible for the operation of the Zhejiang University EMBA project, at EMBA education center, school of management, Zhejiang University* (浙江大學管理學院EMBA教育中心), and from June 2010 to August 2015, she worked as a deputy director of EMBA education center, school of management, Zhejiang University and was primarily responsible for promoting the brand and marketing for Zhejiang University EMBA. From September 2015 to January 2021, She worked at the development and liaison office of Zhejiang University* (浙江大學發展聯絡辦公室) as a manager of development department (Division II) and a deputy secretary of the association of listed companies of Zhejiang University* (浙江大學上市公司協會副秘書長) who was responsible for resource expansion of educational fund for Zhejiang University and donator relationship maintenance.

* *for identification purposes only*

SENIOR MANAGEMENT

Mr. Yu Zemin (俞澤民), aged 62, is responsible for overseeing the production and participating in the day-to-day management and operation of the Group. Mr. Yu retired from his position as executive Director and compliance officer of the Company with effect from 20 December 2019 and continues to serve the Company in the capacity of vice general manager.

Mr. Yu graduated from Zhejiang Radio & Television University* (浙江廣播電視大學) in the PRC with a diploma of party and politics cadre management foundation* (黨政管理幹部基礎) in December 1988. Prior to joining the Group, Mr. Yu worked as a ticket staff primarily responsible for management and distribution of food stamps at Lin'an City Chengguan Staple Food Control Office* (臨安市城關糧管所) from December 1976 to March 1978. During the period from April 1978 to October 1981, he served in the armed forces of the PRC. From October 1981 to August 2001, he was a section chief primarily responsible for the management of the local transactions for certain types of food at Lin'an City Grain Bureau* (臨安市糧食局). He joined the Surveillance of the Commodity Price Substation of the Lin'an City Development and Reform Bureau* (臨安市發展和改革局物價檢查分局) as the chief and was primarily responsible for the supervision and administration of local prices for education and health sectors in September 2001 and retired in January 2007.

Ms. Lu Miaoling (呂妙玲), aged 42, is primarily responsible for supervising the research and development department and monitoring the development of technical projects of the Group. She joined the Group in January 1998 and she is currently the manager of the research and development department. Ms. Lu has more than 15 years of experience in research and development of the decorative printing materials industry. Ms. Lu attended part-time adult higher education* (成人高等教育) top-up degree course* (專升本課程) majoring in accounting at Zhejiang A & F University* (浙江農林大學) in the PRC and graduated in June 2016.

COMPANY SECRETARY

Mr. Chan Wai Lung (陳偉龍), aged 45, is the company secretary of the Group. Mr. Chan is responsible for secretarial work of the Group. He was appointed as the company secretary of the Group on 30 June 2020. Mr. Chan has approximately 20 years of experience in financial and accounting management, corporate governance and compliance affairs. Mr. Chan holds a master's degree in Professional Accounting from The Hong Kong Polytechnic University and is a member of the Hong Kong Institute of Certified Public Accountants.

* *for identification purposes only*

REPORT OF THE DIRECTORS

The Directors are pleased to present this report and the audited financial statements for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries include the manufacturing and sales of decorative printing materials products which mainly comprise of (i) decorative paper; (ii) melamine impregnated paper, (iii) finish foil paper; (iv) PVC furniture film; and (v) PVC flooring film. There were no significant changes in the nature of the Group's principal activities during the Year.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2021 are set out in Note 11 to the consolidated financial statements.

BUSINESS REVIEW

General

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622, the Laws of Hong Kong) (the "Companies Ordinance"), including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 7 to 14 of this annual report. This discussion forms part of this report of the Directors.

Environmental Policies and Compliance with Law and Regulations

The Group is committed to supporting the environmental sustainability. Being manufacturing companies in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group.

A report on the environmental, social and governance aspects is prepared in accordance with Appendix 20 to the GEM Listing Rules are set out in pages 40 to 57 of this annual report.

Relationship with Stakeholders

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

SEGMENT INFORMATION

Detail of segment information are set out in Note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the Year and the Group's financial position as at 31 December 2021 are set out in the consolidated financial statements on pages 65 to 127.

The Board does not recommend the distribution of a final dividend for the Year.

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held on Thursday, 26 May 2022. For determining the shareholders' entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Monday, 23 May 2022 to Thursday, 26 May 2022 (both dates inclusive), during which no transfer of shares will be effected. In order to qualify for attending and voting at the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 20 May 2022.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 128 of this annual report.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

During the Year, there had been no convertible securities, options, warrants or other similar rights issued or granted by the Company or any of its subsidiaries and there had been no exercise of convertible securities, options, warrants or similar rights by the Company or any of its subsidiaries.

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in Note 22 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the Year are set out in Note 23 and note 34(b) to the consolidated financial statements. As at 31 December 2021, the reserves of the Company available for distribution, as calculated in accordance with statutory provisions applicable in the Cayman Islands was approximately RMB102.7 million (2020: RMB104.7 million).

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the section headed "CORPORATE GOVERNANCE REPORT" from pages 27 to 39 of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best of knowledge of the Directors, the Group has complied with all relevant laws, rules and regulations during the Year and there is no material breach of or non-compliance with applicable laws, rules and regulations by the Group that has a significant impact on the Group.

DISCLOSURES UNDER RULES 17.22 TO 17.24 OF THE GEM LISTING RULES

As at 31 December 2021, the Group had no circumstances which would give rise to a disclosure obligation under Rules 17.22 to 17.24 of the GEM Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for less than 24.6% of the total sales for the Year, and the sales to the largest customer include therein amounted to approximately 9.0% of the total sales. Purchases from the Group's five largest suppliers accounted for approximately 59.2% of the total purchases for the Year, and purchases from the largest supplier included therein amounted to approximately 23.5% of the total purchase.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

DIRECTORS

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

Executive Directors
Mr. Sheng Yingming *(Chairman and Chief Executive Officer)*
Mr. Tan Chee Kiang
Mr. Fang Xu
Ms. Sheng Sainan

Independent non-executive Directors
Mr. Tso Ping Cheong Brian
Mr. Ma Lingfei
Ms. Huang Yueyuan

The biographical details of the Directors are set out in "Biographical Details of Directors and Senior Management" in this report.

In accordance with the Amended and Restated Articles of Association of the Company (the "Articles"), Mr. Tan Chee Kiang, Ms. Sheng Sainan and Ms. Huang Yueyuan will retire and be eligible to offer themselves for re-election at the forthcoming annual general meeting.

Each Director is subject to retirement by rotation in accordance with the Articles.

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules. As at the date of this annual report, they are considered to be independent.

EMOLUMENT POLICY

In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offers competitive remuneration packages (with reference to market conditions and individual qualifications and experience). The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are recommended by the remuneration committee of the Company, having regard to the Group's operating results, market competitiveness, individual performance and achievement, to the Board for determination.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in Note 9 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Save and except Mr. Tan Chee Kiang who was appointed for a term of five years but subject to termination by giving not less than three month's written notice, each of the other executive Directors has entered into a service contract with the Company for a term of three years and will continue thereafter subject to termination by either party giving not less than three month's written notice. Each of the independent non-executive Directors has entered into a service contract with the Company for a term of one year, renewable automatically for successive terms of one year each commencing from the day after the expiry of the then current term of the service contract and until terminated by either party giving not less than three months' written notice.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company and/or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance covering the liabilities of its Directors and officers in respect of legal actions that may brought against them. The Company has maintained appropriate insurance coverage for the Directors and officers throughout the Year and are currently in force.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this annual report, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries was a party during the Year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

No contract of significance has been entered into among the Company, or its subsidiaries and the controlling shareholders or any of their associates during the Year.

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2021, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (with the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong (the "SFO")) held by the Directors and chief executive of the Company which have been 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 were taken or deemed to have under such provisions of the SFO) or have been entered in the registered maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long position in ordinary shares of the Company

Name of Director	Capacity/Nature of interest	Number of ordinary shares held	Percentage of shareholding *(Note 2)*
Mr. Sheng *(Note 1)*	Beneficial owner and interest in controlled corporation	259,440,000 shares	51.89%
Mr. Tan Chee Kiang	Beneficial owner	30,000,000 shares	6.00%

Notes:

(1) There are 239,950,000 shares held by Bright Commerce Investment Limited ("Bright Commerce") which is wholly owned by Mr. Sheng and hence, Mr. Sheng is deemed or taken to be interested in all the shares held by Bright Commerce for the purpose of SFO.

(2) The percentage is calculated on the basis of 500,000,000 shares in issue at the date of this annual report.

Save as disclosed above, as at 31 December 2021, none of the Directors or the chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

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

So far as was known to the Directors and the chief executive of the Company, as at 31 December 2021, the following persons/entities (not being the Director or chief executive of the Company) had, or deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	**Capacity/Nature of interest**	**Number of ordinary shares held** *(Note 1)*	**Percentage of shareholding**
Bright Commerce	Beneficial interest	239,950,000 shares (L)	47.99%
Mr. Sheng	Beneficial interest and interest in controlled corporation	259,440,000 shares (L)	51.89%
Ms. Chen Deqin *(Note 2)*	Interest of spouse	259,440,000 shares (L)	51.89%
Mr. Tan Chee Kiang	Beneficial interest	30,000,000 shares (L)	6.00%
Ms. Tay Lee Shia *(Note 3)*	Interest of spouse	30,000,000 shares (L)	6.00%

Notes:

(1) All interests stated are long positions.

(2) Ms. Chen Deqin is the spouse of Mr. Sheng. She is deemed, or taken to be, interested in all shares in which Mr. Sheng is interested for the purposes of SFO.

(3) Ms. Tay Lee Shia is the spouse of Mr. Tan Chee Kiang. She is deemed, or taken to be, interested in all shares in which Mr. Tan Chee Kiang is interested for the purposes of SFO.

Save as disclosed above, as at 31 December 2021, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person or corporation (other than the Directors and chief executive of the Company) who had any interests or short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 22 June 2017 (the "Share Option Scheme"). Details of the Share Option Scheme are set out in note 24 to the consolidated financial statements in this report.

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions made by the eligible participants, to attract skilled and experienced personnel, to incentivise them to remain with the Company and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

No option has been granted since the adoption of the Share Option Scheme.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

EQUITY-LINKED AGREEMENTS

During the Year or subsisted at the end of the Year, save for the Share Option Scheme, the Company did not enter into any equity-linked agreements in respect of shares of the Company that will or may result in the Company issuing shares or that require the Company to enter into any agreement that will or may result in the Company issuing shares.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this annual report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year and up to the date of this annual report, none of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes, or may compete, either directly or indirectly with the businesses of the Group, as defined in the GEM Listing Rules.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

In order to avoid potential conflicts of interests with the Company, each of the controlling shareholders, namely Bright Commerce and Mr. Sheng, have entered into a Deed of Non-Competition (the "Deed") in favour of the Company (for itself and for the benefits of other members of the Group) on 22 June 2017, pursuant to which they (individually or with their close associates) have undertaken, among others, not to compete with the business of the Group. Each of the controlling shareholders furthers that if he/it/she or his/its/her close associates is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it/she shall promptly notify the Group in writing and the Group shall have a right of first refusal to take up such opportunities. Details of the Deed are set out in the section headed "Deed of Non-Competition" in the Prospectus.

Each of the controlling shareholders has made a written confirmation to the Board in respect of their compliance with the undertakings in the Deed since the entering of the Deed on 22 June 2017 to 31 December 2021. Upon receiving the confirmations from the controlling shareholders, the independent non-executive Directors had reviewed the same as part of the annual review process and confirmed that the controlling shareholders had complied with the Deed during the Year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group during the Year are set out in Note 32 to the consolidated financial statements in this annual report. None of such related party transactions constitutes connected transaction or continuing connected transaction, which is subject to the reporting, annual review, announcement and/or shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

During the Year, the Group has not conducted any "connected transaction" or "continuing connected transaction" (as defined under Chapter 20 of the GEM Listing Rules) which is subject to reporting and annual review requirements under the GEM Listing Rules.

AUDITOR

Following the resignation of PricewaterhouseCoopers as the auditor of the Group on 14 July 2020, Confucius International CPA Limited was appointed as the auditor of the Group from 21 July 2020 to fill in the vacancy.

Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

The consolidated financial statements of the Company for the Year have been audited by Confucius International CPA Limited who will retire and be eligible to offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Sheng Yingming
Chairman, Executive Director and Chief Executive Officer
22 March 2022

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the Company's annual report for the Year.

The Board is committed to enhance the standard of corporate governance practices and business ethics with the firm belief that they are essential for maintaining and promoting investors' confidence and maximising shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellent corporate governance.

CORPORATE GOVERNANCE

Subject to the deviation as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Code (the "Code") as set out in Appendix 15 to the GEM Listing Rules throughout the Year.

BOARD OF DIRECTORS

The Board currently consists of four executive Directors and three independent non-executive Directors:

Executive Directors
Mr. Sheng Yingming *(Chairman and Chief Executive Officer)*
Mr. Tan Chee Kiang
Mr. Fang Xu
Ms. Sheng Sainan

Independent non-executive Directors
Mr. Tso Ping Cheong Brian
Mr. Ma Lingfei
Ms. Huang Yueyuan

The Board is responsible for the Company's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual, quarterly and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Pursuant to Article 108 of the Articles, at each annual general meeting one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

No corporate governance committee has been established and the Board is also delegated with the corporate governance functions.

Details of the backgrounds and qualifications of the chairman of the Company and the other Directors are set out on pages 15 to 18 of this annual report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. The family relationships among the Board members, if any, are disclosed under "Biographical Details of Directors and Senior Management" section in this annual report.

The Company has three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Tso Ping Cheong Brian, Mr. Ma Lingfei and Ms. Huang Yueyuan are the independent non-executive Directors. All of them were appointed for a term of one year, renewable automatically for successive terms of one year commencing from the day after the expiry of the then current term of service contract and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules. All independent non-executive Directors are identified in all corporate communications containing the names of Directors.

The Company has arranged Directors' and officers' liability insurance for the Directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Sheng acted as both the chairman and the chief executive officer who would provide a strong and consistent leadership to the Group and allow for more effective planning and management of the Group. Pursuant to code provision C.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, in view of Mr. Sheng's extensive experience in the industry, personal profile and critical role in the Group and the Group's historical development, the Group considered that it would be beneficial to the business prospects of the Group that Mr. Sheng acts as both the chairman and the chief executive officer. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises of experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

Training and Support for Directors

All Directors, including executive Directors and independent non-executive Directors, are encouraged to participate in continuous professional development to keep abreast of their collective responsibilities as Directors and of the businesses and activities of the Group. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and updates all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance code.

During the Year, each of the Directors participated in appropriate continuous professional development activities by way of attending training and/or reading materials relevant to the Group's business, the GEM Listing Rules and directors' duties. Training records of all Directors have been provided to the Company Secretary.

BOARD MEETINGS

The Board held a full board meeting for each quarter. For regular Board meetings, notice of at least 14 days are given to the Directors to give them an opportunity to attend. The Directors are provided with all agenda and adequate information for their review within reasonable time before the board meetings. Appropriate arrangements are in place to ensure that all Directors are given an opportunity to include matters in the agenda. During the Year, the number of Board meetings and general meetings attended by each Director is set out in the following table.

	Number of Board meetings attended	**Number of general meetings attended**
Mr. Sheng	4/4	1/1
Mr. Tan Chee Kiang	4/4	0/1
Mr. Fang Xu	4/4	1/1
Ms. Sheng Sainan	4/4	0/1
Mr. Ma Lingfei	4/4	1/1
Ms. Huang Yueyuan	4/4	0/1
Mr. Tso Ping Cheong Brian	4/4	0/1

Under code provision C.1.6 of the Code, independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Due to conflicting business schedules, Mr. Tso Ping Cheong Brian and Ms. Huang Yueyuan, being the independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 27 May 2021.

Apart from the above regular Board meetings of the Year, the Board will meet on other occasions when a Board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision in advance of each Board meeting. For all the other Board meetings, reasonable notice are given to all the Directors.

Board minutes with sufficient details of the matters considered and decisions reached are kept by the company secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials, and has unrestricted access to the advice and services of the company secretary, and has the liberty to seek external professional advice if so required. The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. The Board notes that the chairman of the Board and the chairmen or, in their absence, other members of the audit committee ("Audit Committee"), nomination committee ("Nomination Committee") and remuneration committee ("Remuneration Committee") of the Company should attend the annual general meeting to answer questions and collect views of shareholders.

REMUNERATION COMMITTEE

Under Rules 5.34 and 5.35 of the GEM Listing Rules, a listed issuer should establish a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties, the Company established a Remuneration Committee on 22 June 2017 as required under Rules 5.34 and 5.35 of the GEM Listing Rules. The current chairlady of the committee is Ms. Huang Yueyuan, an independent non-executive Director, and other members are Mr. Ma Lingfei and Mr. Tso Ping Cheong Brian (both are independent non-executive Directors).

The roles and functions of the Remuneration Committee include, among others, making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment) and making recommendations to the Board for the remuneration of Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee should also consult the chairman and chief executive officer, Mr. Sheng about his remuneration proposals for the other executive Directors.

During the Year, one meeting of the Remuneration Committee was held. Details of the attendance of the meetings of the Remuneration Committee are as follows:

	Members Attendance Times
Ms. Huang Yueyuan	1/1
Mr. Ma Lingfei	1/1
Mr. Tso Ping Cheong Brian	1/1

During the Year, the Remuneration Committee has been provided with sufficient resources to perform its duties. The Remuneration Committee has assessed the performance of the executive Directors and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The Remuneration Committee considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable. The emolument policy of the Company is set out in page 22 of this annual report. Details of the emoluments of the Directors are set out in Note 9 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee was established on 22 June 2017 with specific written terms of reference which deal clearly with its authority and duties. The current chairman of the committee is Mr. Ma Lingfei, an independent non-executive Director, and other members are Mr. Tso Ping Cheong Brian and Ms. Huang Yueyuan, both of them are independent non-executive Directors. The duties of the Nomination Committee include, among others, formulating nomination policies and making recommendation to the Board regarding nomination, appointment and replacement of Directors. The Nomination Committee also establishes recruitment procedures, reviews the structure, number of members and composition of the Board and assesses the independence of the independent non- executive Directors. The Nomination Committee held one meeting during the Year.

	Members Attendance Times
Mr. Ma Lingfei	1/1
Mr. Tso Ping Cheong Brian	1/1
Ms. Huang Yueyuan	1/1

The Nomination Committee considers the past performance, qualification, general market conditions and the Articles in selecting and recommending candidates for directorship during the Year. The Nomination Committee has been provided with sufficient resources to perform its duties during the Year.

NOMINATION POLICY

The Board has adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

Selection Criteria

When evaluating and selecting candidates for directorships, the members of the Nomination Committee or the Board shall consider the following criteria:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategies;
- Willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;
- In case of independent non-executive Directors, whether the candidates would be considered independent in accordance with the GEM Listing Rules;
- The board diversity policy ("Board Diversity Policy") and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and
- Such other perspectives appropriate to the Company's business.

These factors are for reference only, and are not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Nomination Procedures

Appointment of New Director

- The Nomination Committee shall, upon receipt of the proposal on appointment of new Director and the personal information (or relevant details) of the proposed candidate(s), evaluate such candidate(s) based on the criteria as set out above to determine whether such candidate(s) is qualified for directorship;
- If there is more than one desirable candidate, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);
- The Nomination Committee shall then recommend to the Board to appoint the appropriate candidate for directorship; and
- For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Re-election of Director at General Meeting

- The Nomination Committee shall review the overall contribution and service to the Company of the retiring Director including his/her attendance of Board meetings and, where applicable, general meetings, and his/her level of participation and performance on the Board and the Company's business;

- The Nomination Committee shall also review and determine whether the retiring Director continues to meet the selection criteria as set out above; and

- The Board, with the recommendation from Nomination Committee, shall then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

The Nomination Committee will monitor the implementation of the Nomination Policy and report to the Board when necessary. Also, the Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

BOARD DIVERSITY POLICY

The Board adopted the Board Diversity Policy in accordance with the requirement set out in the Code. Such policy aims to set out the approach to achieve diversity on the Board.

The Nomination Committee is responsible for: (i) reviewing the Board Diversity Policy, considering factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Board members; (ii) reviewing the measurable objectives that the Board has set for implementing the Board Diversity Policy; and (iii) monitoring the progress on achieving the measurable objectives.

The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

As at the date of this annual report, the Board consists of five male members and two female members, aging from 30 to 60 years old. Based on the membership and composition of the Board, the Nomination Committee is of the view that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and files can enable the Company to maintain high standard of operation. Detailed breakdown of employees by gender and age group as at 31 December 2021 is set out in page 48 of this annual report.

DIVIDEND POLICY

The Board adopted the dividend policy ("Dividend Policy") in accordance with the requirement set out in the Code. Such policy aims to set out the approach to maintain a balance between meeting shareholders' expectations and prudent capital management with a sustainable dividend policy. In view of this, the dividend payout ratio shall be determined by the Board from time to time. Such declaration and payment of dividends shall remain to be recommended by the Board. In addition, any final dividend for a financial year will be subject to shareholders' approval. The remaining net profit will be used for the Group's operations and development.

The Company's ability to pay dividends will depend upon, among other things, the Company's current and future operations, corporate development plans, liquidity position, capital requirements and future expected capital needs, as well as dividends received from the Company's subsidiaries and associates. The payment of dividend is also subject to any restrictions under the relevant laws, rules and regulations and subject to the Articles.

The Dividend Policy reflects the Company's current views on the financial and cash-flow position of the Group prevailing at the time of its adoption. The Board will continue to review the Dividend Policy from time to time and may adopt changes as appropriate at the relevant time as part of its commitment to maximizing shareholder value, taking into consideration the financial performance of the Company and market conditions. There is no guarantee that any particular amount of dividends will be distributed for any specific periods.

AUDIT COMMITTEE

On 22 June 2017, the Company established an Audit Committee with written terms of reference in compliance with Rules 5.28, 5.29 and 5.33 of the GEM Listing Rules and code provisions D.3.3 and D.3.7 of the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, financial controls, internal control and risk management systems of the Group and provide advice and comments on the Group's draft annual reports and accounts, half year reports and quarterly reports to Directors. The Audit Committee comprises of three members, the current chairman of the committee is Mr. Tso Ping Cheong Brian an independent non-executive Director and other members are Mr. Ma Lingfei and Ms. Huang Yueyuan, both of them are independent non-executive Directors.

The Audit Committee held four meetings during the Year. Full minutes of the Audit Committee have been kept by the Company Secretary. Details of the attendance of the Audit Committee meetings are as follows:

	Members Attendance Times
Mr. Tso Ping Cheong Brian	4/4
Mr. Ma Lingfei	4/4
Ms. Huang Yueyuan	4/4

The Group's unaudited quarterly and interim results and annual audited results for the Year have been reviewed by the Audit Committee during the Year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. During the Year, the Audit Committee has been provided with sufficient resources to perform its duties.

COMPANY SECRETARY

Mr. Chan Wai Lung was appointed as the company secretary of the Company on 30 June 2020. The biographical details of Mr. Chan are set out under the section headed "Biographical Details of Directors and Senior Management" in the annual report.

According to the requirements of Rule 5.15 of the GEM Listing Rules, Mr. Chan has confirmed that for the Year, he has taken no less than 15 hours of relevant professional training.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars of the Directors' remuneration for the Year are set out in note 9(a) to the consolidated financial statements.

Pursuant to code provision E.1.5 of the Code, the remuneration payment of the members of the senior management (other than the Directors) of the Group for the Year falls within the following band:

	Number of Individuals
Nil – RMB1,000,000	2

AUDITORS' REMUNERATION

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Group.

During the Year, the fees charged by Confucius International CPA Limited for audit services of the Group amounted to approximately RMB750,000. No non-audit service was provided by Confucius International CPA Limited during the Year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements of the Group. The statements of the external auditors of the Group, Confucius International CPA Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 58 to 64 of this annual report.

Going concern assessment

The Group had net current liabilities of approximately RMB108.5 million as at 31 December 2021, of which approximately RMB146.1 million and RMB63.0 million represented current bank borrowings and notes payable, respectively, to be repayable in the coming twelve months. These conditions may have a considerable impact on the liquidity position of the Group. The existence of material uncertainties may cast significant doubt on the Group's ability to continue as a going concern.

In view of the conditions mentioned above, the Directors have given due consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group is implementing the following key plans and measures:

(i) The current bank borrowings comprised current portion of long-term bank borrowings of approximately RMB69.1million, RMB66.5 million of which is going to mature in mid-2022 and be renewed as long-term bank borrowings;

(ii) In addition, for borrowings which will be maturing before 31 December 2022, the Group has actively negotiated with banks before they fall due to secure their renewals and obtain the conversion of the remaining short-term borrowings into long-term borrowings upon their maturities; and

(iii) Subsequent to the balance sheet date and up to the date of approval of the consolidated financial statements, the Group has renewed long-term borrowings of RMB10.0 million for twenty four months.

Based on the Group's cash flow forecast which has taken into account the continuous availability of bank facilities, the successful renewals of bank facilities upon expiry, and other measures as mentioned in note 2.1.1 to these consolidated financial statements, the Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they believe that the use of going concern assumption in the preparation and presentation of the consolidated financial statements for the Year under review is appropriate.

Notwithstanding the above, shareholders are reminded to be aware that significant uncertainties may exist as to whether the Group will be able to continue as a going concern and it will heavily depend upon the Group's ability to successfully and timely implement the above-mentioned plans in the coming twelve months from the date of this annual report. Any deviation of the results from the implementation of those plans may significantly affect the going concern assumption of the Group. Should the Group be unable to continue its 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 these consolidated financial statements.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management systems. Such internal control and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Group does not have an internal audit function. The Board currently takes the view that there is no immediate need to set up an internal audit function in light of the size, nature and complexity of the Group's business. The need for an internal audit function will be reviewed from time to time.

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Company. The Company has therefore made continuous efforts to uplift its quality of corporate governance. It has established a highly effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Company is able to safeguard its assets and protect the interests of its shareholders.

Main features of the risk management and internal control systems

To ensure the efficient and effective operation of the Company's business, relevant internal control procedures have been adopted for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for publication. The procedures are reviewed by the Board from time to time and updated when necessary.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the key processes of the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Report the results of risk monitoring to the management and the Board regularly.

The Board had conducted a review on the effectiveness of the Group's internal control and risk management systems once during the Year which covered financial, operational, compliance procedural and risk management functions and had considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. The Board is of the view that the systems of internal control and risk management are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system. The Board expects that a review of the risk management and internal control systems will be performed annually.

BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

The U.S. government and other jurisdictions or organisations, including the European Union, the United Nations and the Australia government, have comprehensive or broad economic sanctions targeting the Sanctioned Countries (note 1) and Sanctioned Persons (note 2).

Note 1 – Sanctioned Countries are those countries or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of the U.S., the European Union, the United Nations and Australia.

Note 2 – Sanctioned Persons are certain person(s) and entity(ies) listed on the United States Department of Treasury's Office of Foreign Assets Control ("OFAC") Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the European Union, the United Nations or Australia.

The Board had effectively monitored and evaluated the Group's business exposure to sanctions risk, including assigning senior staff to review and approve all relevant business transaction documents from customers or potential customers from Sanctioned Countries and Sanctioned Persons. The designated staff reviewed information relating to the counterparty of the contract (such as identity, nature of business, etc.) along with the draft business transaction documentation. The designated staff checked the counterparty against the various lists of restricted parties and countries maintained by the U.S., the European Union, Australia or the United Nations, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in any of the Sanctioned Countries or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from external legal counsel with necessary expertise.

During the Year, the Board had conducted a review of the effectiveness in preventing any prohibited or otherwise restricted sales to Sanctioned Countries or Sanctioned Persons.

AUDITOR

During the Year, the performance of the external auditor of the Company has been reviewed and the Board proposed to put forward a resolution to reappoint Confucius International CPA Limited as the external auditor in the forthcoming annual general meeting.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

During the Year, the Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to communicate with shareholders and investors of the Company. These include (i) the publication of quarterly, interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) replying to the enquires from shareholders timely; (iv) updated and key information of the Company available on the website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's branch share registrar in Hong Kong providing services to the shareholders regarding all share registration matters. The Company continues to promote investor relations and enhance communication with the existing shareholders and potential investors. The Company welcomes suggestions from investors, stakeholders and the public.

CONVENING OF EXTRAORDINARY GENERAL MEETING ON REQUISITION BY SHAREHOLDERS

Pursuant to article 64 of the Articles, shareholder(s) holding not less than one tenth of the paid up capital of the Company having the right of voting at general meetings may make a request in writing for the convening of an extraordinary general meeting and the Board shall convene an extraordinary general meeting within two months of such requisition.

All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the Stock Exchange's website and the Company's website after the relevant shareholders' meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal place of business in Hong Kong located at Room 3201, 32/F, Alexandra House, 18 Chater Road, Central, Hong Kong by post or by email to sljx@splendecor.com.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company by addressing them to the principal place of business of the Company in Hong Kong located at Room 3201, 32/F, Alexandra House, 18 Chater Road, Central, Hong Kong by post or by email to sljx@splendecor.com.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the Year.

The Company has also adopted a code of conduct governing securities transactions by employees who may possess or have access to the inside information.

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the SFO and the GEM Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the GEM Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

- the Group has formulated inside information policies and disclosed its policies on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;

- the Group has strictly prohibited unauthorised use of confidential or inside information; and

- the Group regularly reminds the Directors and employees about due compliance with all polices regarding the inside information, as well as keeps them appraised of the latest regulatory updates.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

During the Year, there had been no significant changes in the constitutional documents of the Company.

LOOKING FORWARD

The Company will keep on reviewing its corporate governance standards on a timely basis and the Board will endeavor to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code introduced by the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is our annual Environmental, Social and Governance ("ESG") Report (the "ESG Report") for 2021, which disclose the policies, actions and performance of the Group involved in sustainability in a transparent and open manner, so as to boost the confidence of the stakeholders in the Group and deepen their understanding about the Group.

REPORTING YEAR

All information provided in this report covers the period from 1 January 2021 to 31 December 2021 ("Reporting Period"), which is consistent with the financial year of the Group's 2021 annual report.

SCOPE OF THIS REPORT

This ESG Report focuses on ESG matters prioritised by the Group in relation to the Company and its principal subsidiaries as listed in Note 11 to the consolidated financial statements. Entities included in this ESG Report covers the major operating segment of the Group. Unless otherwise specified, the scope of this ESG Report is the same as last year.

BASIS OF PREPARATION

This report is prepared in compliance with Appendix 20 to the GEM Listing Rules and the "Environmental, Social and Governance Reporting Guide" of the Stock Exchange (hereinafter referred to as the "ESG Guide"), the description of which sets forth the ESG performance of the Group in a simplified form. The Group has complied with the disclosure requirements of the mandatory disclosure requirements and "comply or explain" provisions set out in the ESG Guide.

Information as contained in this report is derived from the statistics and analytical results of the Group.

REPORTING PRINCIPLES

The content of this annual ESG Report follows the reporting principles of the ESG Reporting Guide.

Materiality: To reflect the application of the principle of materiality, the Group carried out a materiality assessment of the Reporting Period through internal discussion and consultation with various stakeholders. For details, please refer to the section headed "Materiality Assessment" of this ESG Report.

Quantitative: Environmental and social measurable key performance indicators ("KPIs") of this ESG Report are organised and disclosed in a quantitative manner to ensure that stakeholders can have a deep understanding of the Group's ESG performance.

Balance: this ESG Report is based on an objective and impartial manner to ensure that the information provided reflects the Group's overall ESG performance. Data comparisons have been provided to formulate an unbiased comparison of the ESG performance from time to time.

Consistency: Unless otherwise stated, the Group's disclosure and statistical methods are consistent with FY2020. The Group believes that the consistency and coherence of reporting structure would be beneficial for meaningful comparison.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

The Group is principally engaged in the manufacturing and sales of decorative printing materials products. The Group has been active in this industry for over 20 years. In addition to its sophisticated equipment and advanced production lines, the Group always persists in following the principle of “Quality First and Customer First” by continuously transforming and introducing high-tech printing equipment to improve its production efficiency and quality.

The Group stresses the importance of technological innovation, research and development, which is validated by the various invention patents and design patents over the years. Operating business under the brand SPLENDECOR, the Group has successfully developed a series of novel and environmental decor materials, including finish foil paper, decorative paper, melamine impregnated paper and PVC decorative films, and has offered colour scheme solutions based on customer requirements. The Group’s products, which are sold throughout the world, are widely used in various areas, including furniture, cabinets, framework, door panels, fire proof boards, melamine boards, chip boards, density boards and floorboards.

By always adhering to the corporate spirit of “responsibility, honour, innovation and improvement”, the Group strives to develop green business focusing on environmental decorative materials. With the aim to achieve customer satisfaction and to uphold the standards of health, safety and environmental protection, the Group is committed to carrying out its corporate mission of “Creating Customer Values, Developing Opportunities for Employees, Providing Better Places to the Communities, and Maintaining the Natural Harmony”.

ESG GOVERNANCE STRUCTURE

Assuming the ultimate responsibility for all the ESG strategies, management, performance and reporting, the Board takes the lead and has the oversight of the Group’s ESG issues. The Board examines and approves the Group’s ESG objectives, strategies, priorities, targets and goals, as well as the related policies and frameworks. The Board also ensures the effectiveness of ESG management and internal control mechanism.

The Group’s business and functional departments also help with the implementation of relevant strategies in their respective areas and monitoring the effectiveness of the ESG strategies and/or policies. Meetings are arranged regularly to evaluate the effectiveness of the current policies and procedures and develop appropriate solutions to improve the over performance of the Group’s ESG policies. The implementation of the Group’s ESG strategies also relies on the support of designated personnel from various departments who are responsible for ESG-related data collection.

STAKEHOLDERS ENGAGEMENT

Based on the experience and frequency of relevant business management personnel's responses to customers, as well as the experience and frequency of consultations and interactive communications between external bodies and in-house employees, the Group filters and selects six major categories of stakeholders, which are identified government/regulatory bodies, investors/shareholders/media, customers, employees, communities and suppliers.

Major Stakeholders	Communications Channel	Aspects in concern
Government/regulatory bodies	Due submission Inspection of compliance	Compliance with laws and regulations Corporate governance
Investors/shareholders/media	Information disclosed on the websites of the Company and the Stock Exchange General meetings Road shows	Market image Corporate governance Economic performance
Customers	Business visits Liaison through e-mail and telephone Regular meetings	Product quality Product management Environmental management
Employees	Training Employees' opinions and complaints Publications for employees	Safety Employee benefits Labour rights
Communities	Volunteer activities Sponsorship for public welfare events in communities Interviews	Emissions Social responsibility Community activities
Suppliers	Business visits Liaison through e-mail and telephone Regular meetings	Supply management and requirements Operating conditions

MATERIALITY ASSESSMENT

The Group believes that sound ESG performance is important to the Group's sustainable business development and the whole community. With the assist of an independent third-party consultant in 2018, the Group started identifying each of the material issues in respect of environment, society and governance that might affect the Group's businesses or stakeholders. The Group is committed to protecting and improving the ecological environment and social factors and minimising the impact of its activities on the environment. Throughout the stakeholder engagement exercise, the Group's management have assisted the Board to review its operations, identify key ESG issues and assess the importance of these issues to its businesses and stakeholders. It is the Group's policy to promote environmentally friendly operation, thereby gradually achieving the coordinated development of the Group, the environment, and the society. All identified material ESG issues, including environmental protection, employment and labor practices, product responsibility, and community investment, have been disclosed in this ESG Report. The Group will keep creating value for stakeholders and supporting charities and environmental protection.

ENVIRONMENTAL PROTECTION

Emissions

In accordance with the national laws of the PRC, including the Environmental Protection Law* (《環境保護法》), the Law on the Prevention and Control of Air Pollution* (《大氣污染防治法》), the Law on the Prevention and Control of Environmental Pollution by Solid Waste* (《固體廢棄物污染環境防治法》), the Law on the Prevention and Control of Water Pollution* (《水污染防治法》), as well as local rules and regulations, including Zhejiang Ordinances on the Prevention and Control of Air Pollution* (《浙江省大氣污染防治條例》), Zhejiang Ordinances on the Prevention and Control of Water Pollution* (《浙江省水污染防治條例》), and Zhejiang Ordinances on the Prevention and Control of Environmental Pollution by Solid Waste* (《浙江省固體廢物污染環境防治條例》), the Group has established the "Integrated Management System for Exhaust Gases", "Integrated Management System for Wastewater", and "Management System for Solid Waste", the purposes of which are regulating the management of production activities, domestic exhaust gases, wastewater and solid waste, preventing water and soil pollution, minimising environmental impacts on the surroundings and protecting and improving the environment.

To dispose wastewater, the Company adopts measures to separate drainage and sewage, under which, raindrops, production sewage, and domestic sewage at the preliminary stage will be transported in separate pipelines to its self-constructed sewage treatment station for treatment. Wastewater that is in compliance with the emission standard under the Integrated Wastewater Discharge Standard (GB8979-1996)* (污水綜合排放標準) and the corporate standards set by Hangzhou Lin'an Wastewater Discharge Limited* (杭州臨安排水有限公司) will be directed to the municipal sewage pipeline. Hangzhou Lin'an Wastewater Discharge Limited will carry out subsequent treatment processes.

To dispose hazardous waste, electroplating sludge generated each year is delivered to a qualified recycling company for hazard-free treatments. To dispose exhaust gases, the Company installs exhaust gases collecting devices for production equipment that generates exhaust gases. The exhaust gases so collected will be transported to an exhaust gas treatment facility in a pipeline network, the discharge concentration level and speed ratio of which will meet the Integrated Emission Standard of Air Pollutants (GB16297-1996)* (大氣污染物綜合排放標準).

* *for identification purposes only*

Every year, the Group appoints the relevant qualified third-party inspection and testing body to conduct inspection and testing over exhaust gases, sewage and noise to ensure that all emission levels are in compliance with the limitation requirements under the Integrated Emission Standard of Air Pollutants (GB16297-1996) and the Integrated Wastewater Discharge Standard (GB8979-1996). During the Reporting Period, none of the Group's plants reported non-compliance of the relevant environmental laws and regulations. During the Reporting Period, there was no material generation of non-hazardous waste and the total amount of hazardous waste and its intensity were 3.9 tonne and 0.000008 tonne/Revenue RMB'000 (2020: the amount of hazardous waste and its intensity were 4.4 tonne and 0.000012 tonne/Revenue RMB'000), respectively. Committed to reducing emission and promoting resources conservation, the Group has set a target to reduce the intensity of hazardous waste and greenhouse gas emissions of the Group ("GHG Emission") and the other major air pollutants emission gradually throughout financial year 2022 ("FY2022"), using financial year 2021 ("FY2021") as the baseline year. In order to achieve the target, the Group endeavour to reduce and replace the use of toxic and hazardous substances in its manufacturing and operational activities.

The GHG Emission mainly discharged from its self-owned vehicles and indirect energy consumed by the Group for its daily operations, including electricity, natural gas, petrol and diesel.

Major air pollutants emission during the Reporting Period and the corresponding period in 2020 are as follows:

Air Pollutant Emission		
Type of Air Pollutants	**Air Pollutant Emission (kg)**	**Air Pollutant Emission (kg)**
	2021	**2020**
Sulphur dioxide	404.9	370.0
Nitrogen oxides	1,674.1	1,530.0
Particulate matter	1.1	1.0

The GHG emission from the operation during the Reporting Period and the corresponding period in 2020 are set out below:

GHG Emission		
Type of GHG emissions	**Equivalent CO2 emission (tonne)**	**Equivalent CO2 emission (tonne)**
	2021	**2020**
Scope 1 Direct emissions	123.0	114.4
Scope 2 Indirect emissions	4,833.2	4,417.0
Total	4,956.2	4,529.5
Intensity	0.010 tonne/Revenue RMB'000	0.012 tonne/Revenue RMB'000

Note: The calculation of the greenhouse gas is based on the "Corporate Accounting and Reporting Standard" from greenhouse gas protocol.

Scope 1: Direct emission from vehicles that are owned by the Group

Scope 2: Indirect emissions from the generation of purchased electricity consumed by the Group

Scope 3 is not disclosed as it is an optional disclosure and the corresponding emission is not controlled by the Group

Use of resources

In addition to formulate the "Control Procedures for Energy Conservation and Efficient Consumption", the Group adopts various measures to reduce the level of resources consumed during its business operations.

The Group strives to conserve energy and raw materials by setting a target to achieve a 5% reduction in total energy and raw material consumption by FY2022, using FY2021 as the baseline year. When making production plan, the Group aligns orders that consume the same paper for centralised production in order to reduce the number of powering on machinery and equipment. As a result, the utilisation rate of energy and raw materials will be increased. In respect of transportation, the Group's plant sites also align orders in close proximity for transportation in the same vehicle to reduce the number of commutes, which will further reduce fuel consumption.

Furthermore, the Group also set a target to achieve 5% reduction in water consumption by FY2022, using FY2021 as the baseline year. The Group installs water metres to facilities that require water consumption so that water consumption of the facilities can be monitored. If there is any abnormal water consumption, the environmental protection department, together with concerned departments, shall investigate into the causes and take corrective and precautionary measures accordingly.

Overview of environmental performance indicators for various natural resources

	Unit	2021 Total Amount	2020 Total Amount
Total water consumption	Tonne	116,740	97,549
Water Intensity	Tonne/Revenue RMB'000	0.23	0.26
Electricity	kWh	5,455,338	5,738,100
Natural gas	m^3	2,731,002	1,720,536
Petrol	L	31,670	24,119
Diesel	L	35,227	25,755

The Group's products packaging materials comprise of packaging paper, plastic films, paper core barrels and paper spools, etc. The Group utilises various packaging materials reasonably and effectively to reduce environmental impacts.

Major packaging materials	Unit	2021 Total Amount	2020 Total Amount
Packaging paper	kilogram	121,459	83,685
Plastic films	kilogram	97,377	78,677
Paper core barrels	kilogram	138,074	108,488
Paper spools	kilogram	7,545	8,510

Environmental and natural resources

The Group is committed to minimise environmental impacts brought by its corporate activities in a responsible manner, and utilise its resources and efforts in concert with all employees to make contributions to environmental protection. On one hand, the Group enhances environmental promotions among its employees to raise their environmental awareness, and encourages them to adopt environmental practices. On the other hand, the Group designs sustainable workplaces. Furthermore, the Group manages its resources in a responsible manner, for example, using steam condensate as a supplement to its fire-fighting water to reduce the discharge of sewage and installing exhaust gas processing facilities to reduce waste emissions. For the purposes of reducing the discard of chemical packaging barrels, the Group entered into agreements in respect of the recycle of chemical packaging barrels with related suppliers with our best efforts to minimise the environmental impacts.

Green office

The Group actively promotes the environmental practices of low-carbon office operations by encouraging its employees to conserve water, power, use of paper and other office supplies in daily office activities, as well as encouraging its employees to upload and share documents and materials through the internet, instant messaging software and other electronic communications means to reduce unnecessary printing.

Besides these practices, the Group implements the following measures to reduce waste of resources and carbon emissions:

- To reduce energy consumption used for the standby mode of computers, printers, photocopy machines, and other office equipment;
- To enhance its energy consumption management of air-conditioners;
- To improve its management of lighting power, such as selective lighting in bigger offices;
- To fully utilise the video-based conference system;
- To promote the recycling of the office paper and other resources and reduce use of disposable paper cups;
- To improve the utilisation rate of its business vehicles by picking up passengers who are in close proximity, and providing regular maintenance to reduce fuel consumption.

Climate change

The Group aims to enhance its climate change preparedness and resilience by duly identifying and assessing the climate-related risks that might pose significant impacts on its business operation. During the Reporting Period, the Board has conducted a regular review to identify climate-related risks and evaluate the potential financial and operational impacts. With reference to the recommendations of the Task Force on Climate related Financial Disclosures framework, the climate-related risks that may affect the Group and the corresponding mitigation measures are as follows:

Physical Risks

Risk: The changes in weather patterns such as level of precipitation and the temperature as well as higher frequency and intensity of extreme weather events may have adverse impacts on the Group' manufacturing and operational activities, which may in turn affect the Group's ability to meet customers' demand thus affecting the Group's business operations and ultimately affecting the Group's relationship with customers.

Mitigation measures: The Group has established contingency measures that encompasses a variety of weather-related events to reduce the resilient risk. The Group also provides training to its employees on how to deal with extreme weather events.

Transition Risks

Risk: Policy changes regarding carbon emission restriction, carbon pricing and reporting obligations may increase the Group's operating costs. The Group is expected to replace its equipment with higher efficiency model to reduce the use of electricity, natural gas, petrol and diesel.

Mitigation measures: In an attempt to reduce carbon emissions, the Group actively promotes the environmental practices of low-carbon office by encouraging its employees to conserve water, power, use of paper and other office supplies in daily office activities. For details, please refer to the section headed "Environmental and natural resources – Green office" of this ESG Report.

ABOUT THE EMPLOYEES

As at 31 December 2021, the Group had a total number of 417 employees (2020: 403 employees) including 1 senior management male staff located in Hong Kong and the remaining located in the PRC. As the plant site in Lin'an is principally engaged in production activities and most production related positions require massive physical labour, male employees outnumbered female employees.

Below is a detailed breakdown of employees by gender and age group as at 31 December 2021 and 2020:

	2021		2020	
	Number of staff	% of total	Number of staff	% of total
By gender				
Male	305	73	299	74
Female	112	27	104	26
Total	417	100	403	100
By age group				
Under 30	99	24	110	27
31–50	234	56	228	57
51 or above	84	20	65	16
Total	417	100	403	100

Below is a detailed breakdown of our employees turnover rate by gender and age group as at 31 December 2021 and 2020:

	2021	2020
Turnover rate by gender		
Male	31%	31%
Female	32%	25%
Turnover rate by age group		
Under 30	58%	49%
31–50	28%	25%
51 or above	10%	9%

The Group's plant sites treat men and women equally by offering the same fringe benefits and remuneration packages for the same position. During the Reporting Period, the Group's plant sites did not have any non-compliance on the laws and regulations governing employment and labour.

Prioritising safety based on precautions

The Group places a high emphasis on the workplace safety of our employees to prevent any physical injury. In particular, the Group stresses the importance of various safety measures implemented in production workshops and provide effective induction training to employees along with safety promotions and instructions, risk management, first aid and other related work. Furthermore, the Group organises regular safety drills, including fire drills. The Group always emphasises the idea of "prioritising safety based precautions".

Caring a healthy amateur life

As a production-driven enterprise, it is important for the Group to ensure the occupational health and safety of employees. In compliance with the industry standards and the statutory requirements under the Production Safety Law of the People's Republic of China* (《中華人民共和國安全生產法》), the Group is committed to providing employees with a healthy and safe workplace in the course of its business. On one hand, the plant sites provides employees with personal protective equipments based on their various positions. For example, printer operators are provided with dust-proof masks and earplugs, while ink production specialists are provided with toxic-proof masks and gloves. On the other hand, the plant sites will organise regular safety education programs for employees to raise their safety awareness over the course of production activities. In addition, the plant sites organise fire drills and fire safety training every year to enhance the fire safety awareness of employees.

The Group cares about the physical and mental health of employees and provides employees with regular health checks. By providing a full-range health service platform for employees, the Group maintains the health level of its employees with precautions against the spread of diseases, thus ensuring the healthy conditions of employees. During the Reporting Period, the Group arranged 332 health checks for its employees (2020: 381).

The Group offers employees an extensive range of fringe benefits, including lucky money or festive gifts to employees on Chinese New Year, Mid-autumn Festival, Women's Days, and other statutory holidays. Furthermore, the Group extends such benefits package to the family members and relatives of employees, such as birthday blessing to the parents of employees.

* *for identification purposes only*

Overview of health and safety performance indicators

	2021	2020
Number of injuries	15	14
Injury description	Mainly cuts and scratches	Mainly cuts and scratches
Workplace injury rate per 100 employees	4%	4%
Total hours of absence	5,156	2,792
Percentage of workday loss due to workplace injuries	0.35%	0.19%
Corrective measure to prevent reoccurrence of the same accidents	To raise the safety awareness of employees through enhanced safety training programs	To raise the safety awareness of employees through enhanced safety training programs

During the Reporting Period, the Group found no material occupational health and safety incident.

During the past three years including the Reporting Period, there was no work-related fatalities occurred in the Group.

Valuing talents through education and training

The Group pays attention to the career development of its employees by establishing a full-fledge education and training system. Under such system, all of its employees are encouraged to persist in on-the-job training. Furthermore, the Group strives hard to create growth opportunities for talented employees through education and training that will boost individual quality, sharpen the workplace skills and enhance the teamwork performance.

Overview of training and development performance indicators for 2021

		Managerial staff	General Staff	Total percentage of trained employees
Percentage of trained employees	Male	100%	100%	100%
	Female	100%	100%	

During the Reporting Period, the average training hours per employee are approximately 15 hours. The breakdown of the average training hours completed per employee by gender and employee category are as follows:

		Managerial staff	General Staff
Average training hours (hours)	Male	39	14
	Female	28	14

Besides, the Group operates a fresh graduate cultivation scheme that is conducive to the smooth and effective adaption of fresh graduates to the workplace, enabling them to recognise the shift in their social role and adjust their attitude on their path to career development.

Labour standards

The Group fully recognises that child labour and forced labour violate the basic human rights and the International Labour Convention, which will pose a threat against the sustainability of communities and economic growth.

Therefore, the Group is in strict compliance with the provisions that prohibit use of child labour and safeguards human rights. In addition, the Group prohibits any form of forced labour or child labour.

Over the course of recruitment, the employees are required to provide the Group with their identification documents to verify whether they meet the statutory age of 18 years old. Once the Group has identified any cases of forced labour or child labour, the relevant employment contract will be immediately terminated and the relevant employees responsible for the management of human resources will be disciplined accordingly. A report will also be made to the supervisory authority when the senior management considers it necessary. If there is any overtime work at the plant sites, the management is required to ensure that the employees take up overtime work on voluntary basis rather than being forced. If any employee is forced to work overtime, the employee representative may collect evidence and communicate with the management to seek viable solutions.

Overtime payments are made in accordance with the standards as prescribed by law in case of workday overtime, weekend overtime, and overtime during national and statutory holidays.

During the Reporting Period, the Group's plant sites in Lin'an found no violation against the laws and regulations governing the prevention of child labour or forced labour.

Diverse communications channel

The employees and management of the Group may engage in horizontal or vertical communications through its diverse communication channels, including complaint box, e-mail, routine meetings or announcements. Specified staff are designated to handle complaints lodged inside the complaint box on confidential terms.

OPERATING PRACTICE

Supply chain management

During the course of selecting potential suppliers, the procurement department is required to analyse their competitiveness, and identified suppliers will be further approved by the production department of the plant sites and other related departments following their consensus. In this case, the supplier will become a member of the qualified supplier list of the Group.

In accordance with the requirements under the ISO 9001:2015 quality management system, the Group establishes the selection and assessment standards, and investigates into the operating conditions, the quality management system, production capacities, services, implementation of effective environmental and safety management system and delivery capabilities of these suppliers, the findings derived from which serves as the bases for selecting strategic suppliers. By introducing a regular assessment scheme, the Group conducts regular reviews and inspections over the performance of its suppliers in various aspects. The Group's regular assessment indicators cover quality, pricing, delivery schedule, services, etc. for the purposes of achieving risk control over the supply chain. In order to identify and minimise the environmental and social risks along the supply chain, the Group requires all its suppliers to monitor and control potential social and environment risks within the acceptable range under the national and industrial standard. The Group's management team may conduct on-site visit to inspect the environment, health and safety conditions of the suppliers. Persisting in its stringent approval system for all strategic suppliers, the Group will promote the quality management of its suppliers of raw materials and green management, while timely disqualifying unfit suppliers. During the Reporting Period, the Group had a total of approximately 400 suppliers in the PRC. To ensure that the Group's purchase of products and services does not induce significant environmental impacts and social costs, environmental and social considerations are among the prioritised considerations during the supplier selection process of the Group.

Product responsibility

By insisting on the idea of "achieve customer satisfaction, seek improvement and prioritise quality", the Group provides its customers with premium services that are delivered "on schedule with the quality and quantity". In terms of delivery schedule, quality and pricing, the Group continues to enhance its service quality and responds timely to the demands of its customer. As a result, the dependence of our brand customers on the product development and premium services of the Group have been strengthened and deepened. Furthermore, the Group continues to improve the service system of its plant sites by actively tapping into various channels for collecting customers' feedback on our products and services. To ensure that the products of the Group fulfill the expectations of the customers, the Group welcomes any suggestions and/or complaints made by the customers. All responses received from customers will be reviewed by the management of the Group to facilitate improvement in the future. Every individual complaint made by the customers will be followed up in a fair and timely manner.

Quality assurance

Our quality management system has been accredited by the ISO 9001 quality management system. The stringent quality assurance system encompasses the entire manufacturing cycle from product design, manufacturing to sales. Our products as well as the raw materials used by our products have fully complied with all applicable regulatory requirements and standards. The Group will proactively recall its products if there is any non-compliance with the quality standards.

Intellectual property right protection

The Group understands the importance of protecting its own intellectual property right and the intellectual property right of its customers or suppliers. The Group follows the legitimate intellectual protection laws and regulations of the PRC and Hong Kong. All the software and information used in the daily business operations are with legal licenses and we only procure genuine products. The Group regularly monitors to ensure that intellectual property rights are not being infringed upon.

Data protection and privacy policies

The Group attaches great importance to the protection of personal data and identifiable information of its clients. All confidential information relating to the customers are securely protected and only use for internal purposes. Contracts between the Group, its employees and suppliers contain a confidentiality clause to prevent the disclosure of sensitive information.

During the Reporting Period, the Group did not violate any laws and regulations regarding the product responsibility, data protection, privacy and intellectual property rights. The Group has no products sold being recalled and received no substantial complaints.

Certification in respect of environmental protection

The Group successively passes the certification under the ISO 9001 quality management system, ISO 14001 environmental management system, OHSAS 18001 occupational health and safety management system and FSC Chain-of-Custody certification.

Anti-corruption

The Group has always persisted in business operations and productions in good faith in accordance with the laws and regulations. According to its "Incentive and Penalty Management System", the plant sites implement specific rules on improper gains, including prohibitions against personal gains by abusing office power, acceptance of bribes, gifts, rebates or other improper gains, and bribery through document forgery or dealing with customers under table. The Group has established a whistle-blowing channel which allows the employees to report any misconduct behavior. All employees at its plant sites are entitled to and obligated to report the misconducts in various forms, including corporate email, employee interview, open speeches at the meetings or direct reports to the management.

The "Staff Handbook" of the Group also stipulates that employees should enter into the "Undertaking of Confidentiality" and be strictly bound to the relevant provisions thereto. The Directors and employees of the Group are encouraged to attend anti-corruption training organised by the Group in respect of the guidelines contained in the "Staff Handbook" and the updates on relevant laws and regulations.

During the Reporting Period, the Group found no corruption or non-compliance cases or litigation involving its employees.

COMMUNITY INVESTMENT

The Group adopts people-oriented management policy. Besides providing fringe benefits and packages to its employees, the Group conducts regular visits to employees with difficulties every year, and those employees who suffer severe health issues or experience family-related misfortunes will receive specific assistance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX

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INDEPENDENT AUDITOR'S REPORT

PAN-CHINA 天健國際會計師事務所有限公司
Confucius International CPA Limited
Certified Public Accountants

香港湾仔莊士敦道181号大有大厦1501-08室
Rooms 1501-08,15th Floor, Tai Yau Building,
181 Johnston Road, Wanchai, Hong Kong
电话 Tel: (852) 3103 6980
传真 Fax: (852) 3104 0170

To the members of Shenglong Splendecor International Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited the consolidated financial statements of Shenglong Splendecor International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 127, which comprise the consolidated balance sheet as at 31 December 2021, the consolidated income statement for the year then ended, the consolidated statement of comprehensive income for the year then ended, the consolidated statement of changes in equity for the year then ended, the consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2.1.1 in the consolidated financial statements, which indicates that the Group's current liabilities exceeded its current assets by RMB108,516,000 as at 31 December 2021. As stated in Note 2.1.1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

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

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Revenue recognition	
Refer to Note 2.23 and Note 6 to the Group's consolidated financial statements. During the year ended 31 December 2021, the Group recognised revenue from sales of goods amounting to RMB495.0 million. We identified the recognition of revenue as a key audit matter as there are large volume of revenue transactions generated from numerous customers across different locations. Revenue from the sale of goods is recognised when control of the products has been transferred, being when the products are delivered to customers, and there is no unfulfilled obligation that could affect customers' acceptance of the products.	Our procedures in relation to revenue recognition included: • Understanding, evaluating and validating management's key controls in respect of the Group's sales transactions from contract approval, recording of sales based on underlying documents, including sales orders, invoices, goods delivery notes, bills of lading and customs declaration forms ("underlying documents"), to reconciliations with cash receipts and customers' records; • Performing tests of details on revenue transactions covering different locations and customers, on a sampling basis, by examining the underlying documents and evidence of settlement; • Confirming customers' balances at the balance sheet date on a sampling basis, by considering the amount, nature and characteristics of those customers; and • Testing sales transactions that occurred around the balance sheet date. Based on our audit procedures, we found the Group's revenue recognition was supported by the evidence that we gathered.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of trade receivables	
Refer to Note 19 to the consolidated financial statements. Trade receivables in total represented 18.8% of the Group's total assets as at 31 December 2021 and impairment assessment of trade receivables under expected credit losses model involved the use of significant management judgements and estimation. Accordingly, we have identified impairment assessment of trade receivables as a key audit matter. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates are determined based on historical credit losses experience over the past 36 months and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.	Our procedures in relation to management's impairment assessments included: • Understanding and assessing the design and implementation of management's key internal controls relating to estimation of expected credit losses; • Checking, on a sample basis, the aging profile of the trade receivables to the underlying financial records and post year-end settlements to bank receipts; • Discussing with management about the recoverability of amounts that were past due at the reporting date; and • Assessing the appropriateness of the expected credit loss ("ECL") methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information used to determine the ECL. We found that the management judgement and estimation used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of inventories	
Refer to Note 18 to the consolidated financial statements. As at 31 December 2021, the carrying amounts of inventories were RMB40,755,000 and reversal of impairment provisions of RMB5,230,000 for the year were recorded. We identified the valuation of inventories as a key audit matter because of the significant management judgement required to determine the appropriate level of inventory write-downs and provisions. Management identifies slow moving and obsolete inventories and assesses the net realisable value of all inventories with reference to actual selling price, contract price, anticipated future selling prices, market price of similar products, sales forecasts and costs to sell. Inventories are written down to their new realisable value where this falls below their cost.	Our procedures in relation to management's impairment assessments included: • Understanding and assessing the design and implementation of management's key internal controls relating to the identification of slow moving and obsolete inventories and making relevant inventory provisions; • Reviewing, on a sample basis, the management's anticipated future selling price of inventory and comparing the estimated price with historical price, post year-end conditions and market information; • Obtaining the list of slow moving and obsolete inventories identified by management and comparing this information, on a sample basis, with our observations during our attendance at the year-end inventory count and the data contained in the inventory ageing report; and • Re-performing the management's calculation of the net realisable value of inventories. We found that management's assessment of the impairment of inventories to be supportable by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate treats or safeguards applied.

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

Confucius International CPA Limited
Certified Public Accountants
Ng Fai Fiona
Practising Certificate Number: P04986

Hong Kong, 22 March 2022

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31 December 2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	*6*	**494,958**	368,914
Cost of sales of goods	*8*	**(400,552)**	(284,754)
Gross profit		**94,406**	84,160
Selling expenses	*8*	**(34,198)**	(25,940)
Administrative expenses	*8*	**(39,718)**	(42,691)
Net impairment losses on financial assets	*3.1(b)*	**(186)**	(291)
Other income and other gains, net	*7*	**1,832**	1,134
Operating profit		**22,136**	16,372
Finance income	*10*	**616**	403
Finance costs	*10*	**(8,095)**	(7,065)
Finance costs, net	*10*	**(7,479)**	(6,662)
Profit before income tax		**14,657**	9,710
Income tax expense	*12*	**(1,061)**	(438)
Profit for the year		**13,596**	9,272
Profit attributable to owners of the Company		**13,596**	9,272
Earnings per share attributable to owners of the Company for the year (expressed in RMB cents per share)			
– Basic and diluted	*13*	**2.72**	1.85

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit for the year	**13,596**	9,272
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss		
Currency translation differences	**396**	234
Other comprehensive income for the year, net of tax	**396**	234
Total comprehensive income for the year	**13,992**	9,506
Total comprehensive income for the year attributable to owners of the Company	**13,992**	9,506

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Land use rights	*15(a)*	**39,040**	40,109
Prepayments for land use rights	*15(b)*	**4,900**	4,900
Property, plant and equipment	*14(a)*	**304,097**	236,799
Right-of-use assets	*14(b)*	**571**	–
Intangible assets	*16*	**6,909**	6,626
Deposit for acquisition of a property	*15(c)*	**16,362**	8,166
Deferred income tax assets	*28*	**4,282**	5,343
		376,161	301,943
Current assets			
Inventories	*18*	**40,755**	44,415
Trade and other receivables	*19*	**120,436**	109,110
Financial assets at fair value through profit and loss	*21*	**12,005**	–
Restricted bank deposits	*20*	**31,507**	30,744
Cash and cash equivalents	*20*	**13,081**	14,839
		217,784	199,108
Total assets		**593,945**	501,051

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2021 RMB'000	2020 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*22*	4,253	4,253
Other reserves	*23*	100,319	99,923
Retained earnings		110,817	97,221
Total equity		215,389	201,397
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	*27(a)*	43,978	92,000
Trade and other payables (non-current)	*26*	5,298	956
Deferred revenue	*25*	2,820	3,022
Lease liabilities	*27(b)*	160	–
		52,256	95,978
Current liabilities			
Trade and other payables	*26*	179,861	156,676
Short-term bank borrowings	*27(a)*	77,000	35,000
Current portion of lease liabilities	*27(b)*	312	–
Current portion of long-term bank borrowings	*27(a)*	69,127	12,000
		326,300	203,676
Total liabilities		378,556	299,654
Total equity and liabilities		593,945	501,051
Net current liabilities		(108,516)	(4,568)
Total assets less current liabilities		267,645	297,375

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 65 to 127 were approved by the Board of Directors on 22 March 2022 and are signed on its behalf by:

Sheng Yingming
Director

Tan Chee Kiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity owners of the Company			
	Share capital RMB'000 *(Note 22)*	**Other reserves** RMB'000 *(Note 23)*	**Retained earnings** RMB'000	**Total** RMB'000
Balance at 1 January 2020	4,253	99,689	87,949	191,891
Comprehensive income				
Profit for the year	–	–	9,272	9,272
Other comprehensive income				
Currency translation differences	–	234	–	234
Total comprehensive income	–	234	9,272	9,506
Balance at 31 December 2020	4,253	99,923	97,221	201,397
Balance at 1 January 2021	**4,253**	**99,923**	**97,221**	**201,397**
Comprehensive income				
Profit for the year	**–**	**–**	**13,596**	**13,596**
Other comprehensive income				
Currency translation differences	**–**	**396**	**–**	**396**
Total comprehensive income	**–**	**396**	**13,596**	**13,992**
Balance at 31 December 2021	**4,253**	**100,319**	**110,817**	**215,389**

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	*30(a)*	30,876	29,077
Income tax paid		(43)	(1,893)
Net cash generated from operating activities		30,833	27,184
Cash flows from investing activities			
Purchase of property, plant and equipment		(61,691)	(34,108)
Increase of intangible assets		(2,180)	(1,023)
Proceeds from disposal of property, plant and equipment	*30(b)*	97	91
Increase in restricted bank deposits		(763)	(7,743)
Purchase of financial assets at fair value through profit or loss		(12,000)	–
Interest received		555	487
Net cash used in investing activities		(75,982)	(42,296)
Cash flows from financing activities			
Proceeds from bank borrowings raised		137,660	263,500
Repayments of bank borrowings		(86,555)	(242,750)
Interest paid		(7,220)	(6,991)
Repayments of lease liabilities		(649)	–
Net cash generated from financing activities	*30(c)*	43,236	13,759
Net decrease in cash and cash equivalents		(1,913)	(1,353)
Cash and cash equivalents at beginning of the year		14,839	15,890
Exchange gains on cash and cash equivalents		155	302
Cash and cash equivalents at end of the year		13,081	14,839

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 25 July 2013 as an exempted company with limited liability under the Cayman Companies Law of the Cayman Islands. The address of its registered office and principal place of business of the Company are disclosed in the Corporation Information section to the annual report.

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of decorative printing materials products in the PRC and overseas. The ultimate holding company of the Company is Bright Commerce which is incorporated in the British Virgin Islands.

On 17 July 2017, shares of the Company were listed on the GEM of the Stock Exchange.

Mr. Sheng Yingming, who is the chairman of the Board and the chief executive of the Company holding approximately 51.89% beneficial equity interest in the Company, was the single largest shareholder of the Company as at 31 December 2021.

The audited consolidated financial statements are presented in RMB, unless otherwise stated.

The English names of companies mentioned in these consolidated financial statements represented the best effort by Directors in translating their Chinese names as they may not have official English names.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value at the end of each reporting period.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.1 Going concern

As at 31 December 2021, the Group's current liabilities exceeded its current assets by RMB108.5 million. As at the same date, the Group had current bank borrowings of RMB146.1 million to be repayable in the coming twelve months; and had notes payable amounting to RMB63.0 million which were pledged by the Group's bank deposits of RMB31.5 million, land use right with carrying amount of RMB39.0 million and properties, plant and equipment with carrying amount of RMB157.5 million. In addition, the Group had capital commitments amounting to RMB27.5 million in relation to the acquisition of plant and equipment as at 31 December 2021. The Directors have reviewed the Group's cash flow forecast covering a period of not less than twelve months from the date of approval for issue of these consolidated financial statements, and have given due care consideration to the liquidity of the Group and adopted a going concern basis in preparing the consolidated financial statements based on the following assessments:

(a) The Group has not experienced any significant difficulties in renewing its bank borrowings upon their maturities and issuing its bank acceptance notes. In addition, all the Group's lending banks have advised their intention in writing, though not legally binding, to have the existing facilities be available at the current terms for the period till 31 March 2023. There is no indication that the banks will not renew the existing bank borrowings if the Group applies for the renewal. Subsequent to the balance sheet date and up to the date of approval of the consolidated financial statements, the Group has renewed long-term borrowings of RMB10.0 million for twenty four months.

(b) The Directors also expect that sufficient sales orders will be secured in the coming year and the Group will continue its effort to strengthen its working capital position such that net operating cash inflows will be generated.

(c) As at 31 December 2021, the contracted capital expenditure committed by the Group amounted to approximately RMB27.5 million, of which approximately RMB21.0 million is expected to be settled in the coming twelve months. These commitments are mainly related to the upgrade and replacement of the production facilities and also the remaining ancillary renovation work of the new factory zone. The Directors will undertake close monitoring process to control the magnitude and timing of the expected cash outlays associated with these capital projects.

Based on the above, considering the continuous availability of bank facilities, and the successful renewal of bank facilities upon expiry, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming twelve months from the date of approval for issue of these consolidated financial statements. Accordingly, the Directors are of the opinion that the Group will continue as a going concern and has prepared the consolidated financial statements on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.1 Basis of preparation *(Cont'd)*

2.1.2 Change in accounting policy and disclosure

(a) Amended standards adopted by the Group

During the current year, the Group has for the first time applied the following amendments to HKFRSs and the Amendments to the References to the Conceptual Framework in HKFRS Standards issued by HKICPA which became effective for the financial year beginning on or after 1 January 2021:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs during the current year will have no material impact on the financial performance and/or disclosures as set out in the consolidated financial statements for the current year.

(b) New and amended standards and interpretations not yet adopted

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of these new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual improvements to HKFRSs 2018–2020[2]
Accounting Guideline 5 (revised)	Merger Accounting for Common Combination[2]

1 Effective for annual periods beginning on or after 1 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.2 Principles of consolidation

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries would be changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The Company's functional currency is Hong Kong dollar ("HKD"). As the major operations of the Group are in the PRC, the Group presents its consolidated financial statements in RMB, unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents are presented in the statement of profit or loss within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transaction); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.6 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation, net of any impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of to their residual values over their estimated useful lives, as follows:

	Useful lives	**Residual values**
Buildings	20–25 years	5%
Machinery and equipment	10 years	5%
Furniture and other equipment	5 years	5%
Motor vehicles	5 years	5%

Assets under construction represent buildings on which construction work has not been completed and plant, machinery and equipment pending installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, assets under construction are transferred to the appropriate categories of property, plant and equipment at cost, net of impairment losses, if any. No depreciation is charged for assets under construction until they are completed and available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised as 'Other income and other gains – net' in the consolidated income statement.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.8 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on the straight-line method or other more appropriate methods that can reflect the pattern in which the asset's economic benefits are expected to be realised over its estimated useful life.

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

Intangible assets represent the capitalised development costs and computer software measured at historical costs.

2.8.1 Capitalised development costs including patents

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new products and technique) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the new products and technique so that it will be available for use;
- management intends to complete the new products and technique and use or sell it;
- there is an ability to use or sell the new products and technique;
- it can be demonstrated how the new products and technique will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the new products and technique are available; and
- the expenditure attributable to the new products and technique during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense will not be recognised as an asset in a subsequent period.

The Group amortises capitalised development costs with limited useful life using straight-line method over 5 years.

2.8.2 Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives of 10 years on a straight-line basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Investment and other financial assets

2.10.1 *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at FVOCI or FVTPL, and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, it will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 *Recognition and derecognition*

Regular way of purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.10 Investment and other financial assets *(Cont'd)*

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of FVOCI, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated income statement.

- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.10 Investment and other financial assets *(Cont'd)*

2.10.3 Measurement (Cont'd)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not charged to profit or loss.

2.10.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and other receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset with the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.13 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 90 days and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.15 Restricted bank deposits

Restricted bank deposits represent deposits held by the bank in a segregated account as security for issuing bank acceptance. Such restricted bank deposits will be released when the Group repays the related notes payables.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.22 Employee benefits

The Group operates various defined contribution plans, including pension obligations, housing funds, medical insurances and other social insurances.

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group operates the MPF Scheme for its employees in Hong Kong and provides its PRC employees with Welfare Schemes as required by the applicable laws and regulations of the PRC. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the MPF Scheme vest immediately. Under the Welfare Schemes, the Group's PRC subsidiaries are required to contribute a certain percentage of payroll to the Welfare Schemes to fund the benefits. The only obligation of the Group's PRC subsidiaries with respect to the Welfare Schemes is the required contributions under the Welfare Schemes. During the year ended 31 December 2021 and 2020, the Group had no forfeited contributions under MPF Scheme and the Welfare Schemes which may be used by the Group to reduce the contribution payable in the future years. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below.

(a) Sales of goods

Revenue from the sale of goods is recognised when control of the products has transferred, being when the products are delivered to customers, and there is no unfulfilled obligation that could affect customers' acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to customers, and the customers have accepted the products in accordance with the sales contracts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.23 Revenue recognition *(Cont'd)*

(b) Rental income

Rental income from the properties and land leases is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(c) Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

2.24 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate of which the Group is a lessee, the Group has elected not to separate lease and non-lease components, instead it accounts for these as a single lease component.

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 other than the security interests in the leased assets that are held by the lessor, Leased assets may not be used as security for borrowing purposes.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

2.24 Leases *(Cont'd)*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or Directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

Risk management is carried out under policies approved by the Board. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC, but a significant portion of its sales is made to foreign countries, and thus the Group is exposed to foreign currency risks arising from various currency exposures, mainly with respect to USD, Euro ("EUR") and HKD.

Exchange rate fluctuations and market trends have always been the concerns of the Group. The Group regularly and closely monitors the level of its foreign exchange risk exposure, and may take prudent measures, including entering into forward exchange contracts or currency swap contracts despite the Group did not have such arrangements during the year ended 31 December 2021.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Assets		
USD	**36,526**	32,419
HKD	**889**	727
EUR	**783**	626
Total	**38,198**	33,772
Liabilities		
USD	**271**	275
EUR	**354**	950
Total	**625**	1,225

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(i) Foreign exchange risk *(Cont'd)*

If RMB had strengthened/weakened by 5% against the relevant foreign currencies, with all other variable being held constant, the profit before income tax would (decrease)/increase as follows:

	Year ended 31 December			
	2021 (Decrease)/increase on profit before income tax if exchanges rates change by		2020 (Decrease)/increase on profit before income tax if exchanges rates change by	
	+5% RMB'000	–5% RMB'000	+5% RMB'000	–5% RMB'000
USD	(1,813)	1,813	(1,607)	1,607
HKD	(44)	44	(36)	36
EUR	(21)	21	16	(16)

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate borrowings. During the year ended 31 December 2021 and 2020, the Group's borrowings at variable rate were denominated in RMB.

The exposure of the Group's borrowings to interest rate changes at the end of the reporting period are as follows:

	2021 RMB'000	% of total borrowings	2020 RMB'000	% of total borrowings
Variable rate borrowings	8,105	4%	43,000	31%
Fixed rate borrowings	182,000	96%	96,000	69%
	190,105	100%	139,000	100%

An analysis by maturities is provided in note 3.1(c) below. The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(a) Market risk (Cont'd)

(ii) Cash flow and fair value interest rate risk *(Cont'd)*

Sensitivity

As at 31 December 2021, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax for the year and retained earnings by approximately RMB81,000 (2020: RMB430,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the Group's variable rate borrowings at that date with exposure to cash flow interest rate risk. The impact on the Group's profit after tax and retained earnings is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2020.

(b) Credit risk

The carrying amounts of cash and cash equivalents, restricted bank deposits and trade and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

(i) Risk management and security

The Group expects that there is no significant credit risk associated with cash and cash equivalents and restricted bank deposits since they are substantially deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade and other receivables. The Group assesses the credit quality of and sets credit limits on their customers by taking into account their financial position, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with poor credit history, the Group will use methods such as written payment reminders, or shorten or cancel credit periods, to ensure that the overall credit risk of the Group is limited to a controllable extent.

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables
- other receivables

While cash and cash equivalents and restricted bank deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses of trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of the last 36 months and the corresponding historical credit losses experience within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

(ii) Impairment of financial assets *(Cont'd)*

Trade receivables *(Cont'd)*

On that basis, the loss allowance provision as at 31 December 2021 and 2020 is determined as follows for trade receivables:

	Less than 3 months RMB'000	More than 3 months but not exceeding 1 year RMB'000	More than 1 year RMB'000	Total RMB'000
31 December 2021				
Expected loss rate	0.23%	2.72%	92.29%	
Gross carrying amount – trade receivables	100,583	10,604	3,786	114,973
Loss allowance	228	289	3,494	4,011

	Less than 3 months RMB'000	More than 3 months but not exceeding 1 year RMB'000	More than 1 year RMB'000	Total RMB'000
31 December 2020				
Expected loss rate	0.23%	1.87%	85.96%	
Gross carrying amount – trade receivables	92,867	6,961	4,064	103,892
Loss allowance	218	130	3,494	3,842

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

(ii) Impairment of financial assets *(Cont'd)*

Trade receivables *(Cont'd)*

	Trade receivables	
	2021	2020
	RMB'000	RMB'000
Opening loss allowance at 1 January	**3,842**	5,136
Increase in trade receivables loss allowance recognised in profit or loss during the year	**169**	190
Receivables written off during the year as uncollectible	**–**	(1,484)
Closing loss allowance at 31 December	**4,011**	3,842

Trade receivables is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of more than 3 years past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(b) Credit risk (Cont'd)

(ii) Impairment of financial assets *(Cont'd)*

Other receivables

Other receivables at amortised cost mainly includes advances to employees, deposits for utilities and product quality assurance, deposits paid to suppliers, interests receivables and others which are included in trade and other receivables (Note 19).

The loss allowance provision as at 31 December 2021 and 2020 is determined as follows for other receivables, the expected credit losses below also incorporated forward looking information.

	Other receivables at amortised cost	
	2021	2020
	RMB'000	RMB'000
Opening loss allowance at 1 January	**1,147**	1,047
Increase in other receivables loss allowance recognised in profit or loss during the year	**17**	101
Other receivables written off as uncollectible during the year	**–**	(1)
Closing loss allowance at 31 December	**1,164**	1,147

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.1 Financial risk factors *(Cont'd)*

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and to maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (including unutilised banking facilities) and cash and cash equivalents on the basis of expected cash flow. The Group expects to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	More than 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 31 December 2021						
Bank borrowings (including interest payable upon maturity)	152,900	38,341	3,218	5,264	199,723	190,105
Trade and other payables excluding non-financial liabilities	171,819	2,407	2,891	–	177,117	177,117
Lease liabilities	324	162	–	–	486	472
Total	325,043	40,910	6,109	5,264	377,326	367,694

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 31 December 2020					
Bank borrowings (including interest payable upon maturity)	53,014	60,420	34,826	148,260	139,000
Trade and other payables excluding non-financial liabilities	143,038	632	323	143,993	143,993
Total	196,052	61,052	35,149	292,253	282,993

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio periodically to ensure the gearing ratio is in an acceptable range. This ratio is calculated as total bank borrowings divided by total equity.

The gearing ratio as at 31 December 2021 and 2020 is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Total bank borrowings	**190,105**	139,000
Total equity	**215,389**	201,397
Gearing ratio	**88%**	69%

3 FINANCIAL RISK MANAGEMENT *(Cont'd)*

3.3 Fair value measurements of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on any observable market data (that is, unobservable inputs).

The following table presents the carrying value of financial instruments measured at fair value at 31 December 2021 across the three levels of the fair value hierarchy as defined in HKFRS 13 "Fair value measurement".

	31 December 2021			31 December 2020		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL						
– unlisted wealth management product	**–**	**12,005**	**–**	–	–	–
Financial assets at FVOCI						
– Trade and other receivables	**–**	**450**	**–**	–	2,436	–
	–	**12,455**	**–**	–	2,436	–

The fair value of unlisted wealth management product and trade and other receivables were determined by quoted prices provided by banks in PRC.

4 FAIR VALUE ESTIMATION

The carrying amounts less impairment allowance of trade and other receivables excluding prepayments, restricted bank deposits, cash and cash equivalents, short-term bank borrowings, and trade and other payables excluding non-financial liabilities approximate their fair values due to their short maturities.

The carrying amounts of long-term bank borrowings approximate their fair values because the Group's borrowings bear floating interest rates which approximate to the market borrowings interest rate.

As at 31 December 2021 and 2020, the Group had no level 1 and level 3 financial instrument.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxation

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Impairment of trade receivables

The Group applies the HKFRS 9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected loss rates are based on the Group's past loss experiences, existing market conditions, export credit insurance as well as forward looking estimates at the end of each reporting periods.

The estimation of expected credit loss requires the use of judgment.

(c) Capitalisation of internal development costs

Costs incurred on development projects are recognised as intangible assets when it is probable that the projects will be successful considering the criteria set out in Note 2.8.1. Significant judgements applied by management in determining the development costs to be capitalised include whether it is technical feasible to complete the development projects, whether the new manufacturing technique can generate probable future economic benefits, and whether costs incurred were directly attributed to the development of the technique.

(d) Impairment of other receivables

The loss allowances for other receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions based on past history market conditions as well as forward-looking information at the end of each reporting period.

6 REVENUE AND SEGMENT INFORMATION

The Board assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are related to manufacturing and sales of decorative printing materials products. Therefore, management considers that there is only one operating segment under the requirements of HKFRS 8 "Operating Segments".

The Group's five largest customers accounted for approximately 24.6% (2020: 24.7%) of the Group's total revenue for the year ended 31 December 2021.

Revenue from external customers by geographic locations is as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
PRC	**334,362**	247,678
Pakistan	**60,339**	56,823
India	**27,853**	13,010
The United Arab Emirates	**16,357**	8,979
The Republic of Turkey	**8,301**	5,986
Other countries	**47,746**	36,438
	494,958	368,914

7 OTHER INCOME AND OTHER GAINS, NET

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Government grants income including amortisation of deferred government grants	**2,025**	1,971
Income of sales of scrap and surplus materials	**738**	1,396
Rental income, net*	**743**	96
Foreign exchange loss, net	**(1,263)**	(2,493)
Loss on disposal of property, plant and equipment *(Note 30(b))*	**(685)**	(199)
Increase in fair value of financial assets at fair value through profit and loss	**5**	–
Others	**269**	363
	1,832	1,134

* *It represents gross rental income of RMB912,000 (2020: RMB96,000), net of depreciation expense of RMB169,000 (2020: RMB Nil) for the year ended 31 December 2021.*

8 EXPENSES BY NATURE

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Raw materials and consumables used	**323,443**	219,468
Changes in inventories of finished goods and work in progress	**7,998**	1,976
Employee benefit expenses *(Note 9)*	**53,388**	38,690
Depreciation and amortisation	**20,780**	16,835
Utilities	**14,748**	10,910
Transportation expenses	**9,028**	7,554
Travelling expenses	**1,820**	1,615
Commission expenses	**2,987**	1,626
Entertainment expenses	**1,429**	5,112
Other taxes and levies	**1,677**	2,731
Marketing and exhibition expenses	**1,529**	1,281
Licensing fee	**13,246**	10,252
Auditors' remuneration-audit service	**750**	700
Legal and professional expenses	**1,642**	1,688
(Reversal of provisions)/impairment provisions on inventories	**(5,230)**	7,423
Research and development costs		
– Employee benefit expenses *(Note 9)*	**9,000**	7,900
– Depreciation and amortisation	**897**	637
– Raw materials and consumables used and others	**6,476**	6,101
Loss on written-off of intangible asset	**–**	2,020
Other expenses	**8,860**	8,866
Total cost of sales, selling expenses and administrative expenses	**474,468**	353,385

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Directors' fees	**248**	255
Salaries, wages and bonuses	**54,482**	41,832
Pension costs	**5,633**	2,064
Other social security costs	**2,025**	2,439
	62,388	46,590

(a) Directors' and chief executive's emoluments

The remuneration of the directors and chief executives for the years ended 31 December 2021 and 2020 are set out below:

Year ended 31 December 2021:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Allowances and benefit in kind RMB'000	Pension and other social security costs RMB'000	Total RMB'000
Executive directors						
Mr. Sheng Yingming ("Mr. Sheng") *(i)*	–	778	420	12	50	1,260
Mr. Tan Chee Kiang	–	954	140	6	–	1,100
Mr. Fang Xu ("Mr. Fang")	–	408	152	6	44	610
Ms. Sheng Sainan	–	310	30	6	44	390
	–	2,450	742	30	138	3,360
Independent non-executive directors						
Mr. Tso Ping Cheong	100	–	–	–	–	100
Mr. Ma Lingfei	74	–	–	6	–	80
Ms. Huang Yueyuan	74	–	–	6	–	80
	248	–	–	12	–	260

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Cont'd)*

(a) Directors' and chief executive's emoluments *(Cont'd)*

Year ended 31 December 2020:

Name	Fees	Salaries	Discretionary bonuses	Allowances and benefit in kind	Pension and other social security costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Sheng *(i)*	–	820	420	12	8	1,260
Mr. Tan Chee Kiang	–	762	64	6	–	832
Mr. Fang	–	311	96	6	7	420
Ms. Sheng Sainan	–	174	108	6	–	288
	–	2,067	688	30	15	2,800
Independent non-executive directors						
Mr. Tso Ping Cheong	107	–	–	–	–	107
Mr. Ma Lingfei	74	–	–	6	–	80
Ms. Huang Yueyuan	74	–	–	6	–	80
	255	–	–	12	–	267

(i) Mr. Sheng is also the chief executive of the Company.

9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Cont'd)*

(b) Five highest paid individuals

For the year ended 31 December 2021, the five individuals whose emoluments were the highest in the Group included three directors (2020: three) whose emoluments are reflected in the analysis shown in Note 9(a). The emoluments payable to the remaining two individuals (2020: two) during the years are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and wages	**1,000**	910
Discretionary bonuses	**200**	124
Pension costs	**19**	19
Other social security costs	**22**	7
	1,241	1,060

The emoluments fell within the following bands:

Number of individuals

	Year ended 31 December	
	2021	2020
Emolument bands		
RMBnil – RMB1,000,000	**2**	2

During the years ended 31 December 2021 and 2020, no emoluments were paid by the Group to the directors and the five highest paid individuals (including the Directors and employees) as an inducement to join or upon joining the Group, leave the Group or as compensation for loss of office. No Director waived or agreed to waive any emoluments during the years ended 31 December 2021 and 2020.

10 FINANCE EXPENSES, NET

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Finance expenses:		
– Interest expenses on borrowings	7,284	7,042
Add: interest on lease liabilities	31	–
Less: interest capitalised *(Note 14 and 15)*	(33)	(673)
Interest expenses	7,282	6,369
– Bank service charges	813	696
Finance expenses	8,095	7,065
Finance income:		
– Interest income derived from bank deposits	(616)	(403)
Finance expenses, net	7,479	6,662

11 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2021:

Name	Place of incorporation/ establishment and nature of legal entity	Particulars of issued/paid-in capital	Proportion of equity interest held by the Group (%)	Principal activities and place of operation
Directly owned:				
Haoyu Capital Limited ("Haoyu Capital")	Incorporated in the BVI, limited liability company	–	100%	Investment holding in HK
Indirectly owned:				
Splendecor Hong Kong Limited	Incorporated in HK, limited liability company	HKD100	100%	Investment holding in HK
Zhejiang Shenglong Decoration Material Co., Ltd. ("Shenglong Decoration")	Established in the PRC, limited liability company#	RMB20,650,000	100%	Manufacturing and sales of decorative printing materials products in the PRC
Hangzhou Splendor Decoration Co. Ltd. ("Splendor Decoration")	Established in the PRC, limited liability company*	RMB22,710,000	100%	Manufacturing and sales of decorative printing materials products in the PRC
Hangzhou Jiayou Art Co. Ltd.	Established in the PRC, limited liability company	RMB3,000,000	100%	Manufacturing and sales of craft pictures in the PRC

Registered as wholly foreign owned enterprises under PRC law.

* *Registered as Sino-foreign equity joint ventures under PRC law.*

12 INCOME TAX EXPENSE

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax	**–**	657
Deferred income tax *(Note 28)*	**1,061**	(219)
	1,061	438

(a) PRC corporate income tax ("CIT")

The corporate income tax rate applicable to the Group entities located in PRC other than Shenglong Decoration is 25% according to the PRC Corporate Income Tax Law (the "CIT Law") effective on 1 January 2008.

Shenglong Decoration obtained the certificate of High and New Technology Enterprises from local government, in accordance with which, Shenglong Decoration enjoyed a preferential tax rate of 15% for the year ended 31 December 2021 (2020: 15%).

(b) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands and, is exempted from Cayman Islands income tax. Haoyu Capital was incorporated under the International Business Companies Act of the British Virgin Islands and, is exempted from British Virgin Islands income tax. Under the current Inland Revenue Ordinance (Chapter 112, the Laws of Hong Kong), Splendecor Hong Kong Limited is subject to profits tax at the rate of 8.25% on assessable profits up to HKD2,000,000, and 16.5% on any part of assessable profits over HKD2,000,000.

No provision for profits tax in the Cayman Islands, British Virgin Islands or Hong Kong has been made, as the Group had no assessable profit arising in or derived from these jurisdictions for the year ended 31 December 2021 (2020: Nil).

(c) PRC withholding tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding income tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. During the year ended 31 December 2021, the Directors reassessed the dividend policy of its major subsidiaries established in the PRC, Shenglong Decoration and Splendor Decoration, based on the Group's current business plan and financial position, and no retained earnings as of 31 December 2021 would be distributed to its non-PRC registered intermediate holding company in the foreseeable future. As such, no deferred liability has been provided for WHT by the Group for the earnings expected to be retained by the Shenglong Decoration and Splendor Decoration in the PRC and not to be remitted out of the PRC in the foreseeable future.

12 INCOME TAX EXPENSE *(Cont'd)*

(d) Taxation on the Group's profit

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate in the PRC of 25% as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit before income tax	**14,657**	9,710
Tax calculated at applicable corporate income tax rate of 25%	**3,664**	2,428
Effect of different tax rates and preferential tax rates of subsidiaries	**(1,080)**	(447)
Expenses not deductible for taxation purposes	**92**	331
Adjustments for current tax of prior periods	**(18)**	–
Additional deductible allowance for research and development expenses *(i)*	**(1,597)**	(1,874)
	1,061	438

(i) Pursuant to the CIT Law, the Group can enjoy an additional tax deduction calculated at 100% (2020: 75%) of the actual research and development expenses recognised.

13 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the number of ordinary shares in issue during the year.

	Year ended 31 December	
	2021	2020
Profit attributable to owners of the Company (RMB'000)	**13,596**	9,272
Number of ordinary shares in issue ('000)	**500,000**	500,000
Basic and diluted earnings per share (RMB cents)	**2.72**	1.85

The Company did not have any potential ordinary shares outstanding during the years ended 31 December 2021 and 2020. Diluted earnings per share is equal to basic earnings per share.

14 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

(a) Property, plant and equipment

	Buildings RMB'000	Machinery and equipment RMB'000	Furniture and other equipment RMB'000	Motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2020						
Cost	72,889	151,091	14,415	4,617	89,417	332,429
Accumulated depreciation	(25,444)	(96,968)	(4,503)	(2,878)	–	(129,793)
Carrying amount	47,445	54,123	9,912	1,739	89,417	202,636
Year ended 31 December 2020						
Opening carrying amount	47,445	54,123	9,912	1,739	89,417	202,636
Additions	1,589	5,831	970	480	40,280	49,150
Disposals	–	(118)	(168)	(4)	–	(290)
Transfer	3,618	1,814	–	–	(5,432)	–
Depreciation	(5,937)	(7,179)	(871)	(710)	–	(14,697)
Closing carrying amount	46,715	54,471	9,843	1,505	124,265	236,799
At 31 December 2020						
Cost	78,096	158,618	15,217	5,093	124,265	381,289
Accumulated depreciation	(31,381)	(104,147)	(5,374)	(3,588)	–	(144,490)
Carrying amount	46,715	54,471	9,843	1,505	124,265	236,799
Year ended 31 December 2021						
Opening carrying amount	46,715	54,471	9,843	1,505	124,265	236,799
Additions	284	5,099	2,280	523	78,255	86,441
Disposals	(31)	(730)	(16)	(5)	–	(782)
Transfer	115,008	17,912	13,960	350	(147,230)	–
Depreciation	(4,525)	(11,591)	(1,501)	(744)	–	(18,361)
Closing carrying amount	157,451	65,161	24,566	1,629	55,290	304,097
At 31 December 2021						
Cost	193,084	175,882	30,405	5,769	55,290	460,430
Accumulated depreciation	(35,633)	(110,721)	(5,839)	(4,140)	–	(156,333)
Carrying amount	157,451	65,161	24,566	1,629	55,290	304,097

14 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS *(Cont'd)*

(a) Property, plant and equipment *(Cont'd)*

As at 31 December 2021, the construction-in-progress were mainly capital expenditures incurred for the construction of a new plant in the PRC, the amount transferred out from the construction-in-progress mainly represented part of the buildings and production lines which had been completed and put into use.

Depreciation charges have been charged to consolidated income statement as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of sales	**15,080**	12,300
Administrative expenses	**3,112**	2,397
Other income – net rental income	**169**	–
	18,361	14,697

As at 31 December 2021, property, plant and equipment with a total carrying amount of approximately RMB157,451,000 (2020: RMB46,715,000) were pledged as collateral for the Group's bank borrowings (Note 27).

No borrowing cost (2020: RMB673,000) has been capitalised in assets under construction for the year ended 31 December 2021.

The capitalisation rate of borrowings for the year ended 31 December 2020 was 4.98% per annum.

(b) Right-of-use assets

Carrying amounts of right-of-use assets as below:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Other properties lease for own use (measured at cost of depreciation)	**1,090**	–
Depreciation	**(519)**	–
Carrying amounts	**571**	–

15 LAND USE RIGHTS, PREPAYMENTS FOR LAND USE RIGHTS AND DEPOSIT FOR ACQUISITION OF A PROPERTY

(a) Land use rights

Movement of land use rights is analysed as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Opening carrying amount	**40,109**	41,178
Amortisation for the year	**(1,069)**	(1,069)
Closing carrying amount	**39,040**	40,109
Representing:		
Cost	**52,069**	52,069
Accumulated amortisation	**(13,029)**	(11,960)
Carrying amount	**39,040**	40,109

The lease periods of land use rights are 50 year starting from the date of grant and the lands are located in the PRC.

As at 31 December 2021, land use rights with a total carrying amount of approximately RMB39,040,000 (2020: RMB40,109,000) were pledged as collateral for the Group's borrowings (Note 27).

(b) Prepayment for land use rights

The prepayments for land use rights of RMB4,900,000 (2020: RMB4,900,000) as at 31 December 2021 represented the land compensation fee paid by the Group for the government's requisition of collective use land and thus is considered as the prepayment of the Group to obtain the land use rights in the future. The amount is refundable if the Group cannot obtain the land use rights subsequently.

(c) Deposit for acquisition of a property

The deposit of RMB16,329,000 as at 31 December 2021 was paid by the Group for acquisition of a property to be constructed and situated in the PRC. Details of the acquisition are set out in the announcement of the Company dated 14 October 2020.

As at 31 December 2021, the deposit with a total carrying amount of approximately RMB16,329,000 (2020: RMBNil) were pledged as collateral for the Group's borrowings (Note 27).

As of 31 December 2021, borrowing cost of RMB33,000.00 (2020: RMBNil) has been capitalised.

16 INTANGIBLE ASSETS

	Capitalised development costs including patents RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2020			
Cost	11,317	476	11,793
Accumulated amortisation	(2,191)	(273)	(2,464)
Carrying amount	9,126	203	9,329
Year ended 31 December 2020			
Opening carrying amount	9,126	203	9,329
Additions	527	496	1,023
Written off	(2,020)	–	(2,020)
Amortisation	(1,592)	(114)	(1,706)
Closing carrying amount	6,041	585	6,626
At 31 December 2020			
Cost	9,824	972	10,796
Accumulated amortisation	(3,783)	(387)	(4,170)
Carrying amount	6,041	585	6,626
Year ended 31 December 2021			
Opening carrying amount	**6,041**	**585**	**6,626**
Additions	**2,180**	**–**	**2,180**
Amortisation	**(1,775)**	**(122)**	**(1,897)**
Closing carrying amount	**6,446**	**463**	**6,909**
At 31 December 2021			
Cost	**12,004**	**972**	**12,976**
Accumulated amortisation	**(5,558)**	**(509)**	**(6,067)**
Carrying amount	**6,446**	**463**	**6,909**

16 INTANGIBLE ASSETS *(Cont'd)*

Amortisation has been charged to consolidated income statement as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of sales	**1,538**	1,593
Administrative expenses	**359**	113
	1,897	1,706

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
Financial assets by category	**2021**	2020
	RMB'000	RMB'000
Financial assets at amortised cost		
Trade and other receivables excluding non-financial assets	**116,412**	105,925
Restricted bank deposits	**31,507**	30,744
Cash and cash equivalents	**13,081**	14,839
	161,000	151,508
Financial assets at fair value through profit or loss		
Wealth management product	**12,005**	–
Financial assets at fair value through other comprehensive income		
Trade and other receivables excluding non-financial assets	**450**	2,436
	173,455	153,944

	As at 31 December	
Financial liabilities by category	**2021**	2020
	RMB'000	RMB'000
Financial liabilities at amortised cost		
Borrowings	**190,105**	139,000
Trade and other payables excluding non-financial liabilities	**177,117**	143,993
Lease liabilities	**472**	–
	367,694	282,993

18 INVENTORIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Raw materials	19,701	21,177
Work in progress	3,720	3,950
Finished goods	17,334	19,288
	40,755	44,415

The cost of inventories recognised as expense and included in "cost of sales" and "administrative expenses" amounted to RMB330,613,000 and RMB6,476,000 for the year ended 31 December 2021 (2020: to RMB220,715,000 and RMB6,101,000) respectively. Reversal of impairment provision for obsolete inventory amounted to RMB5,230,000 for the year ended 31 December 2021 (2020: impairment provision of RMB7,423,000) were included in "cost of sales".

19 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Trade receivables	114,973	103,892
Notes receivables	450	2,436
Less: allowance for impairment of trade receivables	(4,011)	(3,842)
Trade receivables, net	111,412	102,486
Advances to employees	4,707	5,072
Deposits paid to suppliers	100	105
Deposits for utilities and product quality assurance	1,558	1,574
Interests receivables	130	69
Prepayments of raw materials	3,189	749
Others	504	202
Less: allowance for impairment of other receivables	(1,164)	(1,147)
	9,024	6,624
	120,436	109,110

19 TRADE AND OTHER RECEIVABLES *(Cont'd)*

(a) The credit terms of trade receivables granted by the Group are normally within 3 months. The ageing analysis of trade receivables based on the invoice date is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Less than 3 months	**100,583**	92,867
More than 3 months but not exceeding 1 year	**10,604**	6,961
More than 1 year	**3,786**	4,064
	114,973	103,892

(b) The carrying amounts of the Group's trade receivables were denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	**82,122**	75,368
USD	**32,356**	28,492
EUR	**495**	32
	114,973	103,892

(c) Fair value of trade and other receivables

Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value.

(d) Notes receivables represented trade related bank acceptance with maturity period within 6 months and non-interest bearing.

20 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Cash on hand	**48**	27
Cash at bank	**44,540**	45,556
Cash at bank and on hand	**44,588**	45,583
Less: Restricted bank deposits	**(31,507)**	(30,744)
Cash and cash equivalents	**13,081**	14,839

Cash at bank and on hand were denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	**39,246**	40,335
USD	**4,170**	3,927
EUR	**288**	594
HKD	**884**	727
	44,588	45,583

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Financial assets measured at fair value through profit and loss:		
Wealth management product	**12,005**	–
	12,005	–

As at 31 December 2021, the amount included wealth management product issued by a bank in the PRC. The product is redeemable on demand. The return of the product is determined by the performance of underlying investments which are mainly fixed income assets.

22 SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares
	'000	HKD'000
Authorised		
1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	10,000,000	100,000

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
	'000	HKD'000	RMB'000
Issued			
1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	500,000	5,000	4,253

23 OTHER RESERVES

	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000 *(Note a)*	Translation reserve RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2020	111,659	(24,645)	14,164	(3,311)	1,822	99,689
Currency translation differences	–	–	–	234	–	234
At 31 December 2020	111,659	(24,645)	14,164	(3,077)	1,822	99,923
At 1 January 2021	**111,659**	**(24,645)**	**14,164**	**(3,077)**	**1,822**	**99,923**
Currency translation differences	**–**	**–**	**–**	**396**	**–**	**396**
At 31 December 2021	**111,659**	**(24,645)**	**14,164**	**(2,681)**	**1,822**	**100,319**

(a) Statutory reserves

Pursuant to the Company Law of the PRC and the articles of association of certain PRC subsidiaries, the subsidiaries in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous year' losses) to statutory surplus reserve until the fund aggregates to 50% of their respective registered capital; after the appropriation to statutory surplus reserve, the subsidiaries in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous year' losses, to expand production operations, or to increase the capital of the respective companies. The entities in the PRC may transfer their respective statutory surplus reserves into paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less 25% of the registered capital.

24 SHARE OPTION SCHEME

Pursuant to the Share Option Scheme, the Company may grant options to any individual who is an employee of the Group (including Directors) or any entity in which the Company holds any equity interest and such other persons who has or will contribute to the Group as approved by the Board from time to time, to subscribe for shares in the Company with the payment of HKD1.00 upon each option granted.

The subscription price of a share shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date the option is offered, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date the option is offered; and (iii) the par value of the shares of the Company on the date the option is offered.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue on the date the shares of the Company commence trading on the Stock Exchange, being 50,000,000 shares. As at the date of this annual report, the Company had 50,000,000 shares available for issue under the Share Option Scheme, representing 10% of the issued share capital of the Company. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12 months period up to the date of grant shall not exceed 1% of the shares of the Company then in issue.

The Share Option Scheme is valid and effective for 10 years from the date on which the last conditions of the Share Option Scheme is fulfilled (i.e. 21 June 2027), after which time no further option will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. An offer of grant of an option shall be made to a participant of the Share Option Scheme by letter (the "Offer Letter") in such form as the Board may from time to time determine, requiring the participant to undertake to hold the option on the terms on which it is to be granted (which may include a minimum period for which the option must be held before it can be exercised and a performance target that must be reached before the option can be exercised in whole or in part). The offer shall remain open for acceptance for such time to be determined by the Board. An option shall be deemed to have taken effect after the Offer Letter signed by the grantee together with a remittance in favour of the Company of HKD1.00 or the equivalent amount in any currency is received by the Company. No share option was granted, exercised, cancelled or lapsed since the adoption date of the Share Option Scheme on 22 June 2017 and there was no outstanding share option under the Share Option Scheme as at 31 December 2021 (2020: Nil).

25 DEFERRED REVENUE

Rental income receipt in advance and deferred government grants are included in deferred revenue. Rental received from lease of certain land use rights to an independent third party was deferred and recognised in the consolidated income statements on a straight-line basis over the contractual lease term. Government grants relating to the construction of several environmentally-conscious projects related to assets were deferred and recognised in the consolidated income statements on a straight-line basis over the assets' useful lives.

Movements of deferred revenue are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
At beginning of the year	**3,022**	3,224
Amortisation of deferred government grant	**(106)**	(106)
Amortisation of deferred rental income	**(96)**	(96)
At end of the year	**2,820**	3,022

26 TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Trade payables	**58,893**	60,329
Notes payables	**63,000**	61,400
Payables for purchase of property, plant and equipment	**31,871**	11,054
Accrued operating expenses *(a)*	**3,599**	5,147
Employee benefit payable	**11,975**	8,548
Other taxes payable	**6,944**	3,599
Contract liabilities *(e)*	**1,098**	1,492
Others	**7,779**	6,063
Less: other payables, non-current portion	**(5,298)**	(956)
	179,861	156,676

(a) The amount mainly included accruals for transportation expenses.

26 TRADE AND OTHER PAYABLES *(Cont'd)*

(b) The Group's trade and other payables excluding non-financial liabilities were denominated in the following currencies:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
RMB	**176,492**	142,768
USD	**271**	275
EUR	**354**	950
	177,117	143,993

(c) As at 31 December 2021, the ageing analysis of the trade payables and notes payables based on invoice date is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Less than 3 months	**94,133**	101,433
More than 3 months but not exceeding 1 year	**27,375**	20,088
More than 1 year	**385**	208
	121,893	121,729

(d) As at 31 December 2021, all trade and other payables of the Group were unsecured and non-interest bearing.

(e) The balance of contract liabilities in relation to sales of goods as at 31 December 2020 was RMB1,492,000 of which RMB894,000 was recognised as revenue during the year ended 31 December 2021.

27 BORROWINGS AND LEASE LIABILITIES

(a) Bank borrowings

Long-term bank borrowings	As at 31 December 2021 RMB'000	2020 RMB'000
Secured bank borrowings *(a)*	**113,105**	104,000
Less: current portion of long-term borrowings	**(69,127)**	(12,000)
	43,978	92,000

Short-term bank borrowings	As at 31 December 2021 RMB'000	2020 RMB'000
Secured bank borrowings *(a)*	**77,000**	30,000
Unsecured bank borrowings	**–**	5,000
	77,000	35,000

As at 31 December 2021 and 2020, the Group's borrowings were repayable as follows:

	2021 RMB'000	2020 RMB'000
Within one year	**146,127**	47,000
More than one year but not exceeding two years	**37,163**	58,000
More than two years but not exceeding five years	**2,233**	34,000
More than five years	**4,582**	–
	190,105	139,000

(a) The bank borrowings of RMB190,105,000 (2020: RMB134,000,000) as at 31 December 2021, were secured by property, plant and equipment (Note 14), land use rights and deposit for acquisition of a property (Note 15) of Shenglong Decoration.

The effective interest rates of bank borrowings range from 4.5% to 5.7% per annum for the year ended 31 December 2021 (2020: 4.5% to 5.7%).

(b) Lease liabilities

As at 31 December 2021 and 2020, the repayment of lease liabilities for Group as below:

Lease Liabilities	As at 31 December 2021 RMB'000	2020 RMB'000
Within one year	**312**	–
More than one year but less than two years	**160**	–
	472	–

27 BORROWINGS AND LEASE LIABILITIES *(Cont'd)*

(b) Lease liabilities *(Cont'd)*

In according with HKFRS 16 Leases, the impact on the consolidated statement of profit or loss and consolidated statements of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Depreciation charge on right-of-use assets *(note 14(b))*	519	–
Interest on lease liabilities *(note 10)*	31	–
Expense relating to short term leases	285	–
Additions to right-of-use assets *(note 14(b))*	1,090	–
Cash outflows in respect of leases *(note 30(c))*	649	–
Carrying amount of right-of-use assets *(note 14(b))*	571	–

28 DEFERRED INCOME TAX ASSETS

The analysis of deferred income tax assets is as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Deferred income tax assets:		
– to be recovered after more than 12 months	1,701	1,533
– to be recovered within 12 months	2,581	3,810
	4,282	5,343

Movement of deferred income tax assets is as follows:

Deferred income tax assets	Allowance for impairment of trade and other receivables RMB'000	Inventory impairment provision RMB'000	Deferred government grants RMB'000	Unrealised profit on intra-group transactions RMB'000	Tax losses RMB'000	Total RMB'000
As at 1 January 2020	1,228	68	239	1,745	1,844	5,124
Recognised/(reversed) in the consolidated income statement	(161)	1,086	(16)	(344)	(346)	219
As at 31 December 2020	1,067	1,154	223	1,401	1,498	5,343
As at 1 January 2021	1,067	1,154	223	1,401	1,498	5,343
Recognised/(reversed) in the consolidated income statement	36	(784)	(16)	(344)	47	(1,061)
As at 31 December 2021	1,103	370	207	1,057	1,545	4,282

29 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2021 (2020: Nil).

30 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to cash generated from operations:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit before income tax	**14,657**	9,710
Adjustments for:		
Depreciation of property, plant and equipment *(Note 14(a))*	**18,361**	14,697
Depreciation of right-of-use assets *(Note 14(b))*	**519**	–
Amortisation of land use rights *(Note 15)*	**1,069**	1,069
Amortisation of intangible assets *(Note 16)*	**1,897**	1,706
Loss on written-off of intangible asset *(Note 16)*	**–**	2,020
Loss on disposal of property, plant and equipment *(Note 7)*	**685**	199
Increase in fair value of financial assets measured at fair value through profit and loss	**(5)**	–
Finance expenses – net *(Note 10)*	**7,479**	6,662
Allowance for impairment of trade receivables and other financial assets at amortised cost	**186**	291
	44,848	36,354
Changes in working capital:		
(Increase)/decrease in inventories	**(509)**	2,679
Increase in trade and other receivables	**(24,724)**	(20,802)
Decrease in trade and other payables	**11,261**	10,846
Cash generated from operations	**30,876**	29,077

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment comprise:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Carrying amount	**782**	290
Loss on disposal of property, plant and equipment *(Note 7)*	**(685)**	(199)
Proceeds from disposal	**97**	91

30 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	**2021** **RMB'000**	2020 RMB'000
Cash and cash equivalents	**13,081**	14,839
Repayable within one year:		
– Borrowings	**(146,127)**	(47,000)
– Lease liabilities	**(312)**	–
Repayable after one year		
– Borrowings	**(43,978)**	(92,000)
– Lease liabilities	**(160)**	–
Net debt	**(177,496)**	(124,161)
Cash and cash equivalents	**13,081**	14,839
Total debt	**(190,577)**	(139,000)
Net debt	**(177,496)**	(124,161)

	Other assets	**Liabilities from financing activities**			
	Cash RMB'000	**Borrowing due within 1 year** RMB'000	**Borrowing due after 1 year** RMB'000	**Lease liabilities** RMB'000	**Total** RMB'000
Net debt as at 1 January 2020	15,890	(108,250)	(10,000)	–	(102,360)
Cash flows	(1,353)	61,250	(82,000)	–	(22,103)
Foreign exchange adjustments	302	–	–	–	302
Net debt as at 31 December 2020 and 1 January 2021	**14,839**	**(47,000)**	**(92,000)**	**–**	**(124,161)**
Addition	**–**	**–**	**–**	**(1,090)**	**(1,090)**
Cash flows	**(1,913)**	**(99,127)**	**48,022**	**–**	**(53,018)**
Repayment of lease liabilities					
– capital element	**–**	**–**	**–**	**618**	**618**
– interest element	**–**	**–**	**–**	**31**	**31**
Interest expense	**–**	**–**	**–**	**(31)**	**(31)**
Foreign exchange adjustments	**155**	**–**	**–**	**–**	**155**
Net debt as at 31 December 2021	**13,081**	**(146,127)**	**(43,978)**	**(472)**	**(177,496)**

30 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Cont'd)*

(d) Non-cash investing and financing activities

	2021 RMB'000	2020 RMB'000
Acquisition of property, plant and equipment by notes receivables and inventories	**17,442**	16,763

31 COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for at the end of the year but not yet incurred are as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Property, plant and equipment	**27,471**	37,843

(b) Operating lease arrangement

The Group as lessor

The Group leases its properties under operating lease arrangements which run for an initial period of half to five years, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the tenants. None of the leases include contingent rentals receivable.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Within one year	**711**	–

32 RELATED PARTY TRANSACTIONS

Key management personnel compensation

The compensations paid or payable to key management personnel (including directors and senior management) for employee services are shown below:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Directors' fees	**248**	255
Wages, salaries and bonuses	**4,314**	3,758
Other social security costs	**160**	38
	4,722	4,051

33 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2021 and 2020.

34 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	Note	The Company As at 31 December 2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		105,614	107,644
Current assets			
Amounts due from subsidiaries		1,216	1,249
Prepayment, deposits and other receivables		9	9
Cash and cash equivalents		97	246
		1,322	1,504
Total assets		106,936	109,148
EQUITY			
Equity attributable to owners of the Company			
Share capital		4,253	4,253
Other reserves	*34(b)*	110,877	112,028
Accumulated losses		(8,194)	(7,309)
Total equity		106,936	108,972
LIABILITIES			
Current liabilities			
Other payables and accruals		–	176
Total equity and liabilities		106,936	109,148

The balance sheet of the Company was approved by the Board of Directors on 22 March 2022 and is signed on its behalf by:

Sheng Yingming
Director

Tan Chee Kiang
Director

34 BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY *(Cont'd)*

(b) Reserves movement of the Company

	Share premium	Translation reserve	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2020	111,659	3,523	115,182
Currency translation differences	–	(3,154)	(3,154)
At 31 December 2020	111,659	369	112,028
At 1 January 2021	**111,659**	**369**	**112,028**
Currency translation differences	**–**	**(1,151)**	**(1,151)**
At 31 December 2021	**111,659**	**(782)**	**110,877**

FINANCIAL SUMMARY

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

RESULTS

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**494,958**	368,914	347,267	349,411	320,069
Profit before income tax	**14,657**	9,710	22,356	15,001	8,204
Income tax expenses	**(1,061)**	(438)	(3,115)	(1,268)	(1,200)
Profit for the year	**13,596**	9,272	19,241	13,733	7,004

ASSETS AND LIABILITIES

	As at 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**593,945**	501,051	454,637	423,869	406,123
Total liabilities	**378,556**	299,654	262,746	251,333	246,344
Total equity	**215,389**	201,397	191,891	172,536	159,779