



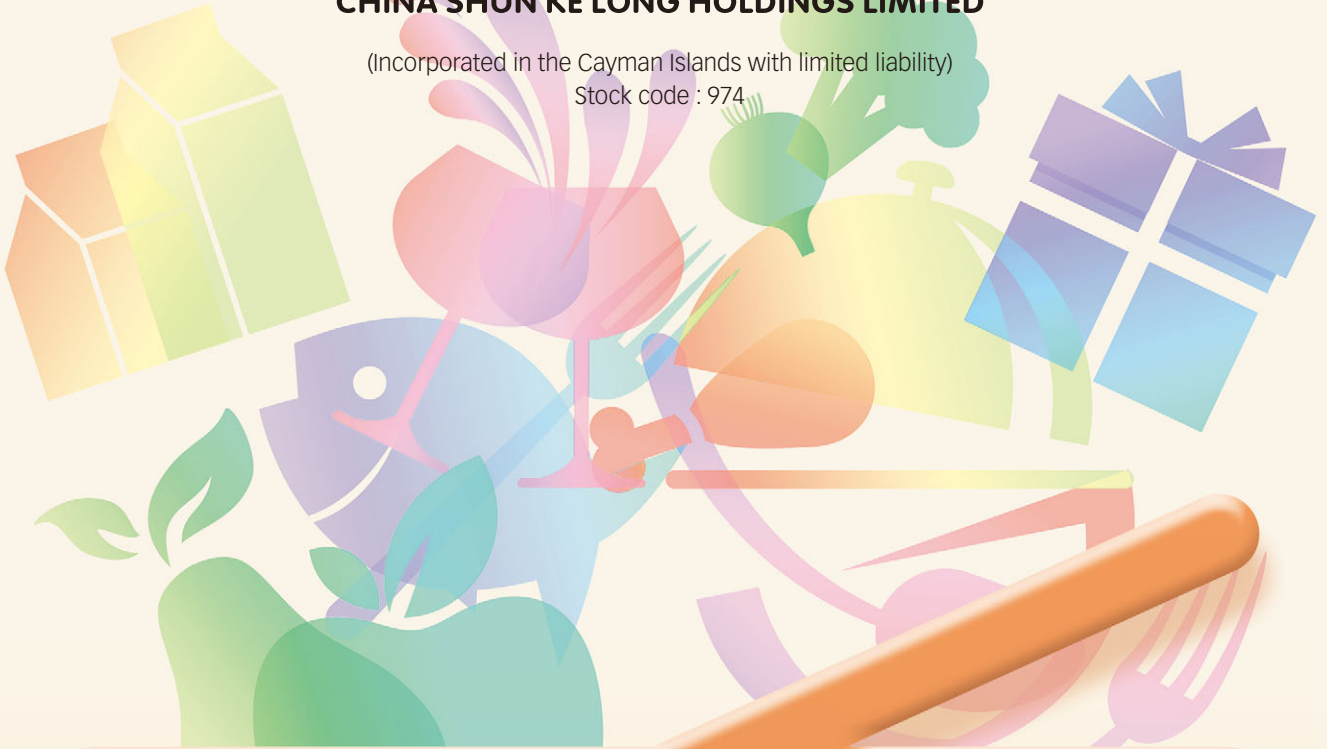
顺客隆

Simple kind life

中國順客隆控股有限公司
CHINA SHUN KE LONG HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 974



ANNUAL REPORT 2021





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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shang Duoxu (*Chairman*)
Mr. Han Wei (*Chief Executive Officer*)

Non-Executive Director

Ms. Wang Hui

Independent Non-Executive Directors

Mr. Cheng Hok Kai Frederick
Mr. Wang Yilin
Mr. Zou Pingxue

AUDIT COMMITTEE

Mr. Cheng Hok Kai Frederick (*Chairman*)
Mr. Wang Yilin
Mr. Zou Pingxue

REMUNERATION COMMITTEE

Mr. Wang Yilin (*Chairman*)
Mr. Zou Pingxue
Mr. Shang Duoxu

NOMINATION COMMITTEE

Mr. Shang Duoxu (*Chairman*)
Mr. Wang Yilin
Mr. Zou Pingxue

AUTHORISED REPRESENTATIVES

Mr. Han Wei
Mr. Qiu Minghao

COMPANY SECRETARY

Mr. Qiu Minghao

COMPANY'S WEBSITE

www.skl.com.cn

STOCK CODE

974

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE IN THE CAYMAN ISLANDS

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802 West Bay Road
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KY1-1205
Cayman Islands

PRINCIPAL BANKERS

Agricultural Bank of China Limited Shunde Lecong
sub-branch
Guangdong Shunde Rural Commercial Bank Company
Limited Lecong sub-branch
China Construction Bank Corporation, Shunde Huabin
Sub-branch
China Everbright Bank Hong Kong Branch

AUDITOR

SHINEWING (HK) CPA Limited
43/F., Lee Garden One, 33 Hysan Avenue
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HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG LEGAL ADVISER

Iu, Lai & Li Solicitors & Notaries
Rooms 2201, 2201A & 2202
22nd Floor, Tower I, Admiralty Centre
No. 18 Harcourt Road, Admiralty
Hong Kong



FINANCIAL SUMMARY

Results	For the year ended 31 December				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Revenue	954,164	986,998	945,221	888,749	741,635
Gross profit	147,343	143,274	134,786	125,817	107,843
Profit (loss) from operation	21,537	21,375	(5,945)	(2,702)	(27,273)
Finance costs	4,625	4,835	10,084	11,483	10,590
Income tax expense	4,976	5,138	450	222	588
Profit (loss) for the year attributable to the owners of the Company	11,681	11,247	(20,626)	(16,501)	(38,045)
Total comprehensive income (expense) attributable to the owners of the Company	8,095	13,617	(19,850)	(18,162)	(38,409)
Dividend paid	Nil	Nil	Nil	Nil	Nil

Assets and liabilities	As at 31 December				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Non-current assets	97,602	97,930	163,375	186,444	170,933
Current assets	427,936	444,690	433,788	413,838	310,652
Current liabilities	261,422	264,732	174,094	284,003	224,702
Net current assets	166,514	179,958	259,694	129,835	85,950
Total assets less current liabilities	264,116	277,888	423,069	316,279	256,883
Non-current liabilities	–	–	165,472	76,810	56,035
Net assets	264,116	277,888	257,597	239,469	200,848
Equity attributable to owners of the Company	262,555	276,172	256,322	238,160	199,751



CHAIRMAN'S STATEMENT

Dear Shareholders:

China Shun Ke Long Holdings Limited (the “Company”, collectively referred to as the “Group” with its subsidiaries) is an investment holding company, and the Group is a supermarket chain store operator with a geographical focus on the Guangdong province of the People's Republic of China (the “PRC”). The Group maintains both retail and wholesale distribution channels. Its focus on suburban and rural areas has differentiated itself from other major players in the market.

The retail sector is an important component of the national economy and a commercial form closely connected to people's daily lives. In recent years, with the development of e-commerce and the transformation of the retail sector, an increasing number of innovative business formats have emerged. Particularly, in view of the post-pandemic era and the ongoing impact from the adaptation of 5G, marketing forms such as live-streaming marketing and community group buy, have huge potential yet to be released. Therefore, the overall brick-and-mortar retail sector experienced a decline in both volumes of customers and sales. A number of enterprises without stable foundation were eliminated by these impacts, sounding a wake-up call for retail companies. As the overall market has become more chaotic, and our country has tightened its supervision over e-commerce, the entire sector has calmed down accordingly. On the whole, the retail sector in the PRC shows a trend with both opportunities and challenges co-existing and business models constantly evolving.

RESULTS

The Group recorded a revenue of approximately RMB742 million for the year ended 31 December 2021 (the “FY2021”), representing a decrease of approximately RMB147 million as compared to that for the year ended 31 December 2020 (the “FY2020”). The net loss attributable to the shareholders for the FY2021 was approximately RMB38.0 million, representing an increase of loss approximately RMB21.5 million as compared to that for the FY2020. The decrease in the revenue and increase in the net loss attributable to the shareholders were mainly due to decrease in sales of retail and wholesale distribution of the Group under the COVID-19 pandemic (the “COVID-19”) and the impacts from e-commerce, and meanwhile increase of selling and distribution costs.

OUTLOOK

As one of the top-ranked players in the retail sector in Guangdong, the Group will strive hard and move forward in the complicated and changing environment of the retail sector. The Group will mainly adopt the business model of “retail + wholesale + bulk trade + online and offline integration + community marketing”, adhere to the market-oriented approach, take fresh food as a point for breakthrough, and integrate technology with retail services online and offline to keep up with the pace of digitalisation. While actively expanding the market in Guangdong-Hong Kong-Macau Greater Bay Area, the Group also seeks business opportunities in other provinces across the country, especially in Hainan Free Trade Zone, in a bid to expand its business territory. Through business innovation and the consolidation of value chain resources from suppliers and service providers among others, the Group will enhance its strength, so as to increase customer satisfaction, maintain brand value, and promote its stable and robust development. As the COVID-19 still persists, there are local outbreaks in the PRC from time to time, causing uncertainty to the retail sector. The Group will maintain a high level of awareness of risk prevention and control, and keep a close eye on the developments, with eager hope for an early end.

Despite the overall sluggish environment of the retail sector, the Group will keep a stiff upper lip and proactively and quickly look for breakthroughs to adapt to market changes.

CHAIRMAN'S STATEMENT

The Group created “Shun Ke Long Fresh Hub”, a community-base fresh produce business format from Shun Ke Long with a number of model outlets opened for now. The success of this profitability model will lay the foundation for the key business format transformation of the Group in the coming years.

Supply chain is still the key to competition in fresh produce business. This is a golden rule of thumb. The Group maintained sole and exclusive distribution rights for 23 brands covering Foshan, Jiangmen and Zhaoqing. The Group cooperated with more than 500 suppliers. During the FY2021, the Group established new partnership with 15 fruit and vegetable bases to strengthen its ability in the supply of fresh produce. The Group will consolidate its supply chain with access to upstream commodities, directly outsourcing and integration.

With our market share continuously eroded by the e-commerce platforms and community group buy, and the new retail transformation and upgrade has yet to break even, the Group will track the pace of the market, pay close attention to the changes of customer needs in a real-time manner, and accelerate the pace of the development of online platforms. The Group will attach great importance to community marketing through its self-operated platform and its cooperation with multiple platforms. The Group has been able to achieve online and offline traffic attraction through its own platform “SKL Select”. Meanwhile it has strengthened cooperation with Taoxianda, Ele.me, JD Home and other e-commerce platforms and improved its delivery capacity, so as to achieve online and offline integration.

ACKNOWLEDGEMENT

I would like to take this opportunity to sincerely thank our shareholders and stakeholders for their consistent support and trust, and thank directors for their concerted efforts and profound insights over the years. I would also like to express my sincere gratitude to our management and employees for their dedication and commitment. I hope that the Group's performance will improve in the coming year and compose a new chapter to create better returns to the shareholders!

Chairman

Shang Duoxu

30 March 2022



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China Shun Ke Long Holdings Limited (the “Company”, collectively referred to as the “Group” with its subsidiaries) is an investment holding company, and the Group is a supermarket chain store operator with geographical focus in Guangdong province of the People’s Republic of China (the “PRC”). During the year ended 31 December 2021 (the “FY2021” or the “Year”), the Group maintained both retail and wholesale distribution channels. The Group’s focus on the suburban and rural areas of the PRC made it different from other major players in the market.

Retail Outlets

During the FY2021, the Group opened one retail outlet and closed four retail outlets. As at 31 December 2021, the Group had sixty seven retail outlet located in Guangdong province of the PRC and one retail outlet located in the Macau Special Administrative Region (“Macau”) of the PRC, respectively.

The following table sets forth the changes in the number of retail outlets of the Group during the FY2021 and the year ended 31 December 2020 (the “FY2020”):

	For the year ended 31 December	
	2021	2020
At the beginning of the year	71	70
Additions	1	5
Reductions	(4)	(4)
	<hr/>	<hr/>
At the end of the year	68	71

The following table sets forth the breakdown of the number of retail outlets of the Group by geographical location as at 31 December 2021:

Location	Number of retail outlets
Foshan	51
Zhaoqing	7
Zhuhai	5
Guangzhou	3
Shenzhen	1
	<hr/>
The PRC	67
Macau	1
	<hr/>
Total	68

MANAGEMENT DISCUSSION AND ANALYSIS

General Wholesale

During the FY2021, the Group managed to keep all sole and exclusive distribution rights that it gained prior to the FY2021. The Group maintained sole and exclusive distribution rights for twenty three brands covering Foshan, Jiangmen and Zhaoqing. The exact coverage of the Group's sole and exclusive distribution rights varied among those twenty three brands. Instead of developing the size of general wholesale customer base, the Group put more emphases on gaining more sub-distributors rather than retailers as the Group's customers.

Franchise Operation

The Group has a franchise scheme opened for application by interested parties to franchise retail outlets. The proceeds from selling goods to franchisees of the Group form a part of its wholesale distribution revenue.

The following table sets forth the changes in number of franchise outlets of the Group during the FY2021 and FY2020:

	For the year ended 31 December	
	2021	2020
At the beginning of the year	633	670
Additions	–	–
Reductions	(8)	(37)
At the end of the year	<u>625</u>	<u>633</u>



MANAGEMENT DISCUSSION AND ANALYSIS

RECENT DEVELOPMENTS AND OUTLOOK

During the post-COVID-19 era, the consumer habits and business formats of the retail sector have changed significantly. Online channels have penetrated into all walks of life and become a standard configuration for retail companies. At the same time, the emergence of community group buy has impacted brick-and-mortar retailers. Under fierce competition, the traditional supermarket sector has to change its operating model to actively explore breakthroughs and adapt to market changes. The key is to undertake transformation and upgrade in direction of being more professional and specialized. The advantage of the traditional supermarket sector is that they have offline outlets close to customers. What they need to do is to highlight fresh produce operation and in-person experience, so that the store is not only a place for selling goods, but also a “third space” in people’s lives. Meanwhile, the Group proactively expanded online platforms to integrate online and offline sales.

Due to the overall sluggish environment of the retail sector, the Group’s results obviously declined. The revenue for the FY2021 amounted to approximately RMB742 million, representing a decrease of approximately RMB147 million as compared with the FY2020. The decrease in revenue was mainly due to a decrease in turnover of wholesale distribution under the COVID-19 and a drop in retail sales of supermarkets as a result of the impact from e-commerce.

In face of such a severe situation, the Group prudentially responded and decisively took the following major measures during the FY2021 to minimise the decline in results: (i) established the model outlets of “Shun Ke Long Fresh Hub” and its profitability model and effectively improved the results of 7 “Shun Ke Long Fresh Hubs”; (ii) renovated 12 physical stores, expecting an effective rise of sales; (iii) developed 15 vegetable and fruit bases and made purchases directly from the bases to reduce procurement costs effectively, resulting in a reduction of more than 5% in single item purchase costs for approximately 35% of vegetables; (iv) continued to rigorously promote online sales by using new sales approaches such as live-streaming marketing to keep up with market trends, resulting in a year-on-year increase of approximately 62% in online sales; (v) accurately grasped the sales methods and market trends of some commodities and daily necessities by strengthening cooperation with suppliers, so that the gross profit margin of those commodities increased by about 2%; (vi) introduced several incentives and delivered training to improve employees’ performance in an all-around way and their overall quality; and (vii) established the “Yu Bang Hang Bargain Wholesale and Retail Outlet” to develop wholesale and retail bargain stores and achieve the integration of wholesale and retail, and explore a reproducible profitability model of Yu bang Hang wholesale and retail bargain stores, which were expected to become a new business format that contributed to the development of the Group.



MANAGEMENT DISCUSSION AND ANALYSIS

Despite the current complicated and rigorous operating environment of the retail sector, the Group will continue to develop into an influential leading retailer in the Pearl River Delta region, and continue to explore the consumption potential in Foshan, Zhaoqing, and Zhuhai, while exploring new markets outside Guangdong province, such as Hainan province that offers preferential policies, if appropriate. Through reform, transformation, innovation and improvement, the Group will adhere to the marketing strategy of “retail + wholesale + bulk trade + online and offline integration + community marketing”, in order to stabilise revenue based on brick-and-mortar retail and with online and offline omnichannel sales as the development direction. In addition to continuing to take the above measures, the Group will also perform the following tasks in 2022: (i) develop a new business model of “Shun Ke Long Club Warehouse Store” that provides members with high quality, cost-effective, and differentiated goods and exclusive benefits to increase consumers’ stickiness, brand loyalty and confidence; (ii) focus continuously on projects with government subsidies and actively stabilise revenue; (iii) follow the local government’s boosting measures and launch provincial or base poverty alleviation projects, with exclusive distribution rights to increase revenue and enhance the reputation for the Group in response to the central government’s rural revitalisation strategy; (iv) continuously develop “Shun Ke Long Fresh Hub” to promote franchised stores during the year, making them an extension of business format of “Shun Ke Long Fresh Hub”; (v) continue to expand online platforms, and develop the Group’s own e-commerce platform “SKL Select” to achieve a combination of online and offline sales; and (vi) pay great attention to hot and promotional windows and activities in 2022, such as several e-commerce shopping festivals, and events, such as Labour Day, Middle Autumn Day, 21% off year-end promotions, and Members Day on Tuesdays.

KEY RISKS AND UNCERTAINTIES

The Group’s financial position, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group’s businesses. The followings are the key risks identified by the Group. Save as those shown below, there may be other risks that are not known to the Group or that may not be material now but could turn out to be material in the future.

Fierce competition in Expanding Retail Outlets Network

Under fierce competition in the retail industry, we are facing various local and foreign competitors. Our future growth and profitability depend in part on our ability to expand our business presence and network in the Greater Bay Area and to implement our expansion plan. Particularly, it is subject to the risks and uncertainties as to our ability to identify suitable sites for new retail outlets, availability of resources and funding for expansion plan, our ability to attract management talents, and our ability to obtain government approvals, among others. If we fail to implement the expansion plan, our results of operations may be adversely affected.

Change in Consumer Preferences

Consumer preferences in the PRC are changing at a rapid pace and are affected by many factors such as economic conditions, disposable income, government policies, family structure, trend, and many other factors. The success of our business depends on our ability to provide products that meet the customer demands. If we fail to accurately forecast and adjust our product mix in time to meet the consumer demands and preferences, our results of operations may be adversely affected.



MANAGEMENT DISCUSSION AND ANALYSIS

Thin Profit Margin

As the Group is facing keen competition from other players of the supermarket industry and online retailers, and due to the increase in the operating costs, the profit margin has been squeezed and have a thin net profit margins. If there is any occurrence of unfavourable event such as the outbreak of infectious disease e.g., COVID-19, concern over safety of product, price advantage of our competitors etc., our volume of products sold, selling prices or costs of sales, may be adversely affected.

Competition from online retailing platform

Online retailing platform has been rising abruptly these years. Based on its inherent attributions such as efficiency, it has been threatening our retail outlets or slowing down our pace of expanding our retail outlets network before we establish our own robust online retailing channels. As such, this further the competition in this supermarket operation industry.

High staff turnover rate

The Group is mainly engaged in the supermarket business, which has a high demand for staff. Shortage of manpower or higher staff turnover rate may adversely affect our business, operating results and expansion plans. In recent years, the turnover rate of younger people working in our business has been on the rise.

COVID-19

Due to the outbreak of the COVID-19 in early 2020, the Group spent every effort and strengthened measures to fight against the COVID-19 and ensure the normal operation of all stores. Suspension of outlets caused by the COVID-19 may result in a drop in the Group's revenue. the Group has introduced and developed online sale platforms to achieve a combination of online and offline sales in order to mitigate the impact of the COVID-19.

FINANCIAL REVIEW

Revenue

For the FY2021, due to the impact of online e-commerce and the COVID-19, the revenue of the Group was approximately RMB741.6 million, representing a decrease of approximately RMB147.1 million or 16.6% from the FY2020. The decrease in revenue was mainly due to a decrease in turnover of wholesale distribution caused by the COVID-19 and a drop in retail sales of supermarkets impacted by online e-commerce.

For the FY2021, the Group's revenue from retail outlets operation was approximately RMB607.6 million, representing a decrease of approximately RMB84.1 million or 12.2% from the FY2020. The decrease was mainly due to a decline in offline consumer demand impacted by online shopping, community group buying and other new retail forms.

For the FY2021, the Group's revenue from wholesale distribution operation was approximately RMB134.0 million, representing a drop of approximately RMB63.0 million or 32% from the FY2020. The drop was mainly due to the suspension of the catering industry and the reduction of distribution brands during the COVID-19. In addition, the COVID-19 situation abroad also affected the bulk sales of fruit.

MANAGEMENT DISCUSSION AND ANALYSIS



Gross Profit Margin

For the FY2021 and the FY2020, the Group's gross profit margins were approximately 14.5% and approximately 14.2% respectively. The growth was mainly attribute to a rise in gross profit margin of fresh food in supermarkets resulted from finer management.

The following table sets forth the breakdowns of the revenue, cost of inventories sold and gross profit in respect of the two business segments of the Group for the FY2021 and the FY2020:

	For the year ended 31 December	
	2021 RMB'000,000	2020 RMB'000,000
Revenue		
Retail outlet operation	607.6	691.7
Wholesale distribution	134.0	197.0
Total	<u>741.6</u>	<u>888.7</u>
Cost		
Retail outlet operation	505.7	572.6
Wholesale distribution	128.1	190.3
Total	<u>633.8</u>	<u>762.9</u>
Gross profit		
Retail outlet operation	101.9	119.1
Wholesale distribution	5.9	6.7
Total	<u>107.8</u>	<u>125.8</u>
Gross profit margin		
Retail outlet operation	16.8%	17.2%
Wholesale distribution	4.4%	3.4%
Total	<u>14.5%</u>	<u>14.2%</u>



MANAGEMENT DISCUSSION AND ANALYSIS

Other Operating Income

For the FY2021, the Group's other operating income was approximately RMB30.7 million, representing a decrease of approximately RMB4.3 million or 12.3% from the FY2020. The decrease was mainly due to the drop in promotion income from suppliers.

Selling and Distribution Costs

For the FY2021, the Group's selling and distribution costs were approximately RMB133.9 million, representing an increase of approximately RMB6.6 million or 5.2% from the FY2020. The increase was mainly due to a rise in labour costs, promotion fees and insurance fees.

Administrative Expenses

For the FY2021, the Group's administrative expenses were approximately RMB31.8 million, representing a decrease of approximately RMB4.3 million or 11.9% from the FY2020. The decrease was mainly due to a decline in payroll cost for staff.

Finance Costs

For the FY2021, the Group's finance costs were approximately RMB10.6 million, representing a decrease of approximately RMB0.9 million or 7.8% from the FY2020. The decrease was mainly due to lesser interest expense and lease liabilities.

Impairment Losses Recognised in Property, Plant and Equipment and Right-of-use Assets

In 2021, the management performed an impairment assessment of property, plant and equipment and right-of-use assets of the Group. Accordingly, the Group's property, plant and equipment had been impaired by RMB12,000, and there was no impairment of right-of-use assets. The recoverable amount of a cash generating unit is determined based on a discounted pre-tax cash flow projection, prepared in accordance with the financial budgets approved by management covering a five-year period. The major reason for such impairment was due to the impact of the temporary suspension of store operations during the outbreak of the COVID-19 in the Group's retail stores operated in Macau, which led to a surge in pre-tax operating loss.

MANAGEMENT DISCUSSION AND ANALYSIS



Income Tax Expense

For the FY2021, the Group's income tax expense was approximately RMB0.6 million, representing an increase of approximately RMB0.4 million or 200.0% from the FY2020, which was mainly due to the one-time adjustment of corporate income tax payable in previous years.

Net Loss

For the FY2021, the Group's net loss attributable to the shareholders was approximately RMB38.0 million, representing an increase in loss of approximately RMB21.5 million or 130.3% from the FY2020. The increase in loss was mainly due to a decrease in gross profit as a result of a drop in sales and a rise in selling and distribution costs.

Total Comprehensive Expense

For the FY2021, the Group's total comprehensive expense attributable to the shareholders was approximately RMB38.4 million, representing an increase of approximately RMB20.2 million or 111.0% from the FY2020. The appreciation of RMB against Hong Kong dollars resulted in an exchange loss of approximately RMB0.4 million on translation of the financial statements from the functional currency to the presentation currency in the FY2021, and the exchange losses were reflected as other comprehensive expense.

Capital Expenditures

The Group's capital expenditures mainly relate to additions of its property, plant and equipment and right-of-use assets for the opening of new retail outlets and renovation of existing retail outlets. For the FY2021, the Group spent approximately RMB9.3 million and RMB34.6 million on the acquisition of property, plant and equipment and right-of-use assets, respectively.

Capital Commitments

As at 31 December 2021, the Group had no significant capital commitments (31 December 2020: nil).

Liquidity and Financial Resources

As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB103.3 million (31 December 2020: approximately RMB104.0 million), out of which approximately RMB95.3 million was denominated in RMB and approximately RMB8.0 million was denominated in HK\$ or MOP.

As at 31 December 2021, the Group had net current assets of approximately RMB86.0 million (31 December 2020: approximately RMB129.8 million) and net assets of approximately RMB200.8 million (31 December 2020: approximately RMB239.5 million). As at 31 December 2021, the Group had unutilised banking facilities of approximately RMB48.0 million (31 December 2020: nil).



MANAGEMENT DISCUSSION AND ANALYSIS

On 21 October 2019, the Board announced that the Company, through its subsidiary, Guangdong Province Shun Ke Long Commerce Limited* (廣東省順客隆商業連鎖有限公司) ("Guangdong SKL", formerly known as Foshan City Shun Ke Long Commerce Limited* (佛山市順客隆商業有限公司)) began to subscribe for up to RMB60 million of wealth management product from Shunde Rural Commercial Bank with expected annualised return rate of 2.8% to 3%. As at 31 December 2021, Guangdong SKL did not hold any of the wealth management product.

In order to minimise credit risk, the management of the Group has assigned responsible staff to determinate credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The management considered that risk of default in respect of trade and other receivables is low and thus the identified impairment loss was immaterial.

Significant Investments and Plans for Material Investments or Capital Assets

The Group did not hold any significant investments during the FY2021.

Material Acquisitions and Disposals

The Group did not carry out any material acquisition nor disposal of any subsidiary during the FY2021.

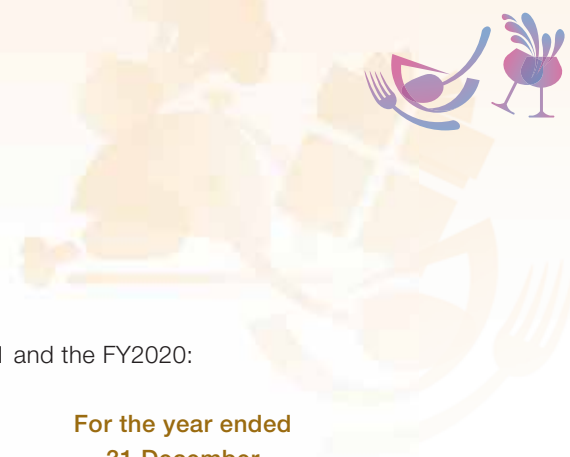
Indebtedness and Pledge of Assets

As at 31 December 2021, the Group had bank borrowings of approximately RMB60.0 million (31 December 2020: approximately RMB108.0 million) secured by:

- (i) the pledge of certain buildings of the Group with carrying amounts of approximately RMB11.9 million at 31 December 2021 (31 December 2020: approximately RMB11.4 million);
- (ii) the pledge of certain right-of-use assets of the Group with carrying amounts of approximately RMB20.7 million at 31 December 2021 (31 December 2020: approximately RMB19.0 million); and
- (iii) the pledge of certain investment properties of the Group with carrying amounts of approximately RMB9.4 million at 31 December 2021 (31 December 2020: approximately RMB9.4 million).

All those bank borrowings were repayable within a year. The interests of those loans were at fixed rate of 4.90% per annum (31 December 2020: at fixed rate of 5.23% per annum).

MANAGEMENT DISCUSSION AND ANALYSIS



Key Financial Ratios

The following table sets forth the key financial ratios of the Group for the FY2021 and the FY2020:

	For the year ended 31 December	
	2021	2020
Debtors turnover days	14.8	12.1
Inventory turnover days	72.5	65.7
Creditors turnover days	52.6	52.4
Return on equity	-19.2%	-6.9%
Return on total assets	-8.0%	-2.7%
Total loans (RMB'000,000)	60.0	108.0
Total equity (RMB'000,000)	200.8	239.5
Gearing ratio	29.9%	45.1%
Net debt to equity ratio	Net cash	Net cash
Current ratio	1.4x	1.5x
Quick ratio	0.9x	1.0x

Note: Gearing ratio is calculated as total loans divided by total equity

Foreign Currency Exposure

Majorities of the Group's assets, liabilities and cash flows were denominated in RMB and part of the Group's assets were denominated in HK\$. During the FY2021, the appreciation of RMB against HK\$ had no impact from translation as the reporting currency of the Group was RMB. Apart from that, the management of the Company viewed that the change in exchange rate for RMB against foreign currencies did not have significant impact on the Group's financial position nor performance given that functional currencies of the Group was RMB. During the FY2021, the Group did not engage in any hedging activities and the Group had no intention to carry out any hedging activities in the near future. The management of the Group will continue to closely monitor the foreign currency market and consider carrying out hedging activities when necessary.

Contingent Liabilities

As at 31 December 2021, the Group did not provide any guarantee for any third party and did not have any significant contingent liabilities.

Employees

The Group had a total of 1,152 employees as at 31 December 2021, of which 1,138 employees worked in the PRC and 14 worked in Hong Kong and Macau. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and bonuses based upon staff performance and profit of the Group. During the FY2021, the Group had not caused any significant impact on its operation due to labour disputes nor had it experienced any difficulty in the recruitment of experienced staff. The Group maintains a good relationship with its employees.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Shang Duoxu (“Mr. Shang”) (尚多旭), aged 36, has been appointed as the Chairman and an executive Director of the Company since 25 February 2022. Mr. Shang has been serving various positions amongst the Company’s controlling shareholders, including as the chairman of the board of directors of CCOOP Co., Ltd.* (供銷大集集團股份有限公司) (“CCOOP”), a company listed on the Shenzhen Stock Exchange (stock code: 000564), since January 2022 and a financial controller of Non-Aviation Asset Management Division* (非航空資產管理事業部) of HNA Group Co., Ltd* (海航集團有限公司) (“HNA Group”) since October 2019. He has been serving as the chairman of the board of directors of Northeast Electric Development Co. Ltd. (東北電氣發展股份有限公司) (“Northeast Electric”), a company incorporated in China and listed on both the Stock Exchange of Hong Kong Limited (“Stock Exchange”) (stock code: 0042) and the Shenzhen Stock Exchange (stock code: 000585), since August 2021.

Over the years, Mr. Shang held various other positions in the HNA Group and its subsidiaries. Mr. Shang previously served as a financial controller of Northeast Electric between July 2021 and October 2021; a deputy financial controller and the financial controller of HNA Logistics Group Co., Ltd* (海航物流集團有限公司) between October 2018 and October 2019; a director and a financial controller of HNA Infrastructure Investment Group Co., Ltd.* (海航基礎設施投資集團股份有限公司) (“HNA Infrastructure”), a company incorporated in China and listed on the Shanghai Stock Exchange (stock code: 600515), between April 2019 and February 2020, and January 2016 and October 2018, respectively; a financial controller of Hainan Island Construction Co., Ltd* (海南海島建設股份有限公司) in January 2016; a general manager of Planning and Finance Department of Haihang Commercial Holding Co., Ltd.* (海航商業控股有限公司) (“Haihang Commerce”) between March 2015 and January 2016; a manager of Fund Management Centre of Planning and Finance Department of HNA Industrial Group Co., Ltd.* (海航實業集團有限公司) between August 2013 and March 2015; a deputy general manager of Finance Affairs Centre of HNA Holding (Group) Co., Ltd.* (海航實業控股(集團)有限公司) between November 2012 and August 2013; a deputy general manager of Planning and Finance Department of Haihang Real Estate Holding (Group) Co., Ltd.* (海航地產控股(集團)有限公司) between February 2012 and November 2012; a financial controller of Hainan Trans Service Sales Management Company Limited* (海南海島一卡通匯營銷管理有限公司) between December 2011 and February 2012; and a manager of Investment and Financing Centre of Planning and Finance Department of Hainan Airlines International Tourism Island Development Construction (Group) Limited* (海航國際旅遊島開發建設(集團)有限公司) between November 2010 and December 2011.

Mr. Shang graduated from Chengdu University of Technology (成都理工大學) with a bachelor’s degree in economics in 2008, and obtained a master’s degree in finance from Tulane University (杜蘭大學) in 2019.



DIRECTORS AND SENIOR MANAGEMENT

As disclosed above, Mr. Shang was the financial controller of HNA Infrastructure. On 16 January 2019, HNA Infrastructure announced that it received the “Decision on the Measure of Issuing a Warning Letter in relation to HNA Infrastructure Investment Group Co., Ltd.” ([2019] No. 7) (《關於對海航基礎設施投資集團股份有限公司採取出具警示函措施的決定》([2019] 7號)) and the “Decision on the Measure of Issuing a Warning Letter in relation to Shang Duoxu” ([2019] No. 4) (《關於對尚多旭採取出具警示函措施的決定》([2019] 4號)) from Hainan Regulatory Bureau (the “Bureau”) of China Securities Regulatory Commission (中國證券監督管理委員會海南監管局) (the “CSRC”). As disclosed in the 2017 annual report of HNA Infrastructure, the guarantee provided by HNA Infrastructure and its subsidiaries to its shareholders, actual controllers and associates was 95.47% of the guarantee received from its shareholders, actual controllers and associates, which exceeded the limit of 30% as resolved by its board of directors on 14 April 2017 and shareholders on 11 May 2017. As HNA Infrastructure failed to disclose information and obtain the approval from its board of directors and shareholders in respect of such excess, it breached articles 2 and 48 of the Administrative Measures for Information Disclosure of Listed Companies (CSRC Order No. 40) (《上市公司信息披露管理辦法》(證監會令 第40號)) (the “CSRC Order No. 40”). Mr. Shang was primarily responsible for the aforesaid irregularity and failed to discharge his duties of due diligence and care, and has therefore breached article 3 of CSRC Order No. 40. The Bureau has decided to adopt an administrative supervision measure of issuing a warning letter to each of HNA Infrastructure and Mr. Shang.

Mr. Han Wei (“Mr. Han”) (韓璋), aged 40, was appointed as a non-executive Director of the Company on 10 June 2017, and re-designated as an executive Director and the Chief Financial Officer of the Company on 13 September 2017. Mr. Han resigned as the Chief Financial Officer and was appointed as the Chief Executive Officer of the Company on 27 July 2020. Mr. Han has been appointed as a director of Hong Kong Shun Ke Long International Limited, Shun Ke Long International Limited, Ozone Supply Chain International Limited and Ozone Supply Chain Management Limited, all of which are wholly owned subsidiaries of the Company, since 5 August 2020. Mr. Han has been serving various positions among the Company’s controlling shareholders, including as a director of CCOOP since 2017, deputy chairman of CCOOP since April 2021 and an executive director of Green Industrial (HK) Holding Co., Limited* (綠色實業(香港)有限公司) since 2016.

Mr. Han previously served as the financial controller between 2017 and 2018 and the president between 2019 to February 2021 of CCOOP. Mr. Han served as the chairman of the board of directors of Hainan CCOOP Digital Technology Industry Co., Ltd.* (海南供銷大集數字科技產業有限公司) (formerly known as Hainan CCOOP Financial Information Technology Co., Ltd. (海南供銷大集金服信息科技有限公司)) between 2019 to December 2020; the deputy financial controller and the general manager in the financial planning department of Hainan CCOOP Holding Ltd.* (海南供銷大集控股有限公司) between 2015 and 2016; an executive director of Feihang Yuanchuang Investment Co., Ltd.* (飛航遠創投資有限公司) between 2016 to July 2017. Mr Han also served as a director of Haihang Commence between 2016 to July 2020, and the chief financial officer and the financial controller of Haihang Commence between 2015 and 2016. Mr. Han served as the executive deputy manager in the finance planning department of HNA Industrial Group Co., Ltd.* (海航實業集團有限公司) between 2013 and 2015; the vice president of the project construction department of HNA Industry Holding Co., Ltd.* (海航實業控股(集團)有限公司) in 2012; the deputy general manager in the finance planning department of HNA Based Industry Group Co., Ltd.* (海航基礎產業集團有限公司) between 2012 and 2013; the assistant to the general manager in the finance department of Hainan Airlines Holding Co., Ltd.* (海南航空股份有限公司) between 2011 and 2012; and the fund planning and controlling manager and the fund planning supervisor both in the finance planning department of HNA Group between 2008 and 2009 and between 2004 and 2008, respectively.

Mr. Han has graduated from Tsinghua University with an executive MBA degree in 2020. Prior to this, Mr. Han graduated from Xiamen University in China with a postgraduate diploma in 2006, and from Xi’an Jiaotong University in China with dual bachelor degrees in Economics and Law in 2004. He is a senior economist.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Ms. Wang Hui (“Ms. Wang H.”) (王卉), aged 47, has been appointed as non-executive Director of the Company since 25 February 2022. Ms. Wang H. served as the Chief Financial Officer of the Company between 5 August 2020 and 25 February 2022. Ms. Wang H. has been serving as a director and the president of CCOOP since March 2021 and February 2021 respectively, and a supervisor of Haihang Commerce since December 2017.

Ms. Wang H. previously served as the financial controller and supervisor of CCOOP between 2018 and 2021 and in 2018 respectively; a general manager of the Planning and Finance Department of CCOOP between 2016 and 2018; a financial controller of Hainan HNA Airline Sales Ltd.* (海南海航航空銷售有限公司) between 2013 and 2016; a general manager of Finance Department of Yuekai Securities Co., Ltd.* (粵開證券股份有限公司) (formerly known as Lianxun Securities Co., Ltd.* (聯訊證券有限責任公司)) between 2011 and 2013; an accountant of the Accounting Management Centre of Planning and Finance Department of HNA Group between 2006 and 2011; a finance manager of Finance Department of Sanya LSG Catering Co., Ltd* (三亞漢莎航空食品有限公司) between 2005 and 2006; a project manager of Hainan Efa Certified Public Accountants* (海南鄂發會計師事務所) between 2001 and 2004; and a financial manager of Sanya Branch of China Air Express Co., Ltd* (民航快遞三亞分公司) between 2000 and 2001.

Ms. Wang H. graduated from the Party School of the Guizhou Provincial Committee of the Communist Party of China (中共貴州省委黨校) with a bachelor’s degree in economics and management in 1998. She has been a certified public accountant in China since 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheng Hok Kai Frederick (“Mr. Cheng”) (鄭學啟), aged 58, was appointed as an independent non-executive Director of the Company on 27 July 2020. Mr. Cheng has been serving as an independent non-executive director and the chairman of the audit committee of CIMC Vehicles (Group) Co., Ltd. (中集車輛(集團)股份有限公司), a company listed on the Stock Exchange (stock code: 1839), and as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of JiaXing Gas Group Co., Ltd. (嘉興市燃氣集團股份有限公司), a company listed on the Stock Exchange (stock code: 9908) since 2019.

Mr. Cheng previously served various senior positions at other companies listed on the Stock Exchange. Mr. Cheng served as an independent non-executive director, the chairman of the audit committee, and a member of each of the nomination and remuneration committees of Luzhou Xinglu Water (Group) Co., Ltd. (瀘州市興瀘水務(集團)股份有限公司), a company listed on the Stock Exchange (stock code: 2281) between 2017 to 2022; served as an executive director of Sanai Health Industry Group Company Limited (三愛健康產業集團有限公司), a company listed on the Stock Exchange (stock code: 1889) in 2019, and served as the chief financial officer, the company secretary, an authorised representative under Rule 3.05 of the Listing Rules and the managing director of corporate finance and investment of PuraPharm Corporation Limited (培力控股有限公司), a company listed on the Stock Exchange (stock code: 1498) between 2010 and 2018. Prior to that, Mr. Cheng served as the finance director of Asia Pacific and Japan of Autodesk Asia Pte Ltd. between 2006 and 2008; the finance director of Pacific Rim of Mentor Graphics Asia Pte Ltd. between 2004 and 2006; the finance director of Asia Pacific and Japan of LSI Logic Hong Kong Limited between 1997 and 2004; and an audit assistant and a senior accountant of PricewaterhouseCoopers (formerly known as Price Waterhouse) between 1985 and 1988.



DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheng graduated from the University of New South Wales in Australia with a master's degree in accounting in 1992, and from the University of Salford in the United Kingdom with a bachelor's degree in finance and accounting in 1985. Mr. Cheng was admitted as an associate member of (i) CPA Australia (formerly known as Australian Society of Certified Practising Accounts), (ii) the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants), (iii) Governance Institute of Australia (formerly known as Chartered Secretaries Australia) and (iv) The Chartered Governance Institute, U.K. (formerly known as Institute of Chartered Secretaries and Administrators, U.K.) in 1992, 1992, 1996 and 1995, respectively, and then as the fellow member of such professional bodies in 2004, 2003, 2013 and 2012, respectively.

Mr. Wang Yilin (“Mr. Wang”) (王—林), aged 67, was appointed as an independent non-executive Director of the Company on 5 August 2020. Mr. Wang has served as the chief consultant of Sanya International Asset Exchange* (三亞國際資產交易中心) since November 2020, and the president of the Financial Development Promotion Association of Hainan Province* (海南省金融發展促進會) since 2018. Mr. Wang previously served as management positions in finance field of the Mainland China for over 30 years. Mr. Wang Yilin graduated from the Xi'an Jiaotong University* (西安交通大學) in China with a PhD in Economics in 2000.

Mr. Zou Pingxue (“Mr. Zou”) (鄒平學), aged 56, was appointed as an independent non-executive Director of the Company on 5 August 2020. Mr. Zou has served as the director and a member of academic committee of the Center for Issues of Hong Kong and Macau Special Administrative Regions of Shenzhen University* (深圳大學港澳及國際問題研究中心) since 2021, and the director and a member of academic committee of the Center for Basic Laws of Hong Kong and Macau Special Administrative Regions of Shenzhen University* (深圳大學港澳基本法研究中心), and as a part-time doctoral supervisor of legal theory of the Graduate School of Chinese Academy of Social Sciences* (中國社會科學院研究生院), since 2016. Mr. Zou has also been serving as a part-time doctoral supervisor of Constitutional Law and Administrative Law of the Law School of Wuhan University* (武漢大學法學院) since 2011, and a professor of the Law School of Shenzhen University* (深圳大學法學院) since 2005.

Mr. Zou previously served as the deputy director and a member of the academic committee of the Center for Basic Laws of Hong Kong and Macau Special Administrative Regions of Shenzhen University* (深圳大學港澳基本法研究中心) between 2009 and 2016. Between 2001 and 2014, Mr. Zou also held various positions at the Law School of Shenzhen University, including the positions of associate dean between 2009 and 2014, associate professor between 2002 and 2005, and office director and lecturer between 2001 and 2002. Prior to that, Mr. Zou served at the “Ruling City by Law” Office of the Standing Committee of the Shenzhen People's Congress* (深圳市人大常委會依法治市辦公室), as a principal staff member between 1996 and 2001, a senior staff member in 1996, and a staff member between 1995 and 1996.

Mr. Zou graduated from the Law School of Wuhan University* (武漢大學法學院) in China, with a bachelor's degree in Law in 1987, a master's degree in Constitutional Law in 1990, and a PhD in Constitutional Law in 1995.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Wang Yanfen (“Ms. Wang Y.”) (王艷芬), aged 46, has been appointed as the deputy Chief Executive Officer of the Company since 25 February 2022. Ms. Wang Y. has joined the Group for over 20 years. She first joined the Company in 1996 as a manager and is currently serving as a general manager of the Guangdong Shun Ke Long Commercial Chain Company Limited* (廣東省順客隆商業連鎖有限公司), a wholly-owned subsidiary of the Company. Ms. Wang Y. previously served as an executive director and the Chief Executive Officer of the Company between October 2013 and June 2017. Ms. Wang Y. is currently a deputy of the 17th People’s Congress of Shunde District, Foshan City, Guangdong Province (廣東省佛山市順德區第十七屆人大代表), a member of Shunde Federation of Industry and Commerce Executive Committee (順德區工商聯), a part-time vice president of the Women’s Federation of Lecong Town, Shunde District (順德區樂從鎮婦聯) and the president of Women Entrepreneur Council of Lecong Town (樂從鎮女企業家協會). Ms. Wang Y. served as a deputy to the 14th People’s Congress of Shunde District, Foshan City, Guangdong Province (廣東省佛山市順德區第十四屆人大代表), a guest supervisor of People’s Government of Lecong* (樂從鎮人民政府) and a women’s representative in Lecong Town. She has been recognised and awarded with several honours as the “Woman Heros” in Shunde District, the “Industry Star”, “Advanced Workers” and “Outstanding Members of the Communist Party” in Lecong Town.

Ms. Wang Y. graduated from Ji’nan University (暨南大學) majoring in business administration in 2004 and obtained her master’s degree in business administration from Victoria University of Switzerland in 2015.

Mr. Zhao Xiaofei (“Mr. Zhao”) (趙瀟飛), aged 33, has been appointed as Chief Finance Officer of the Company since 25 February 2022. Mr. Zhao has been serving as a deputy general manager of the Financial Planning Department of CCOOP since June 2018. Mr. Zhao previously served as a vice president of Hainan CCOOP Supply & Marketing Chain Network Technology Co., Ltd.* (海南供銷大集供銷鏈網絡科技有限公司) between October 2017 and June 2018; a general manager assistant of the Financial Planning Department of CCOOP between April 2015 and October 2017; a manager of Cash Flow Segment of the Financial Management Centre of HNA Holding Group Co., Ltd.* (海航實業集團有限公司) between October 2014 and April 2015; and a manager of Cash Flow Management Centre of Financial Planning Department of E-Food Group Co., Ltd.* (易食集團股份有限公司) between February 2014 and October 2014.

Mr. Zhao graduated from Henan University of Economics and Law (河南財經政法大學) with a bachelor’s degree in economics in 2011 and obtained a master’s degree in finance from the Central University of Finance and Economics (中央財經大學) in 2016. Mr. Zhao obtained the Intermediate Accounting Professional Qualification in China in 2017.

COMPANY SECRETARY

Mr. Qiu Minghao (“Mr. Qiu”) (邱明昊), aged 41, was appointed as Company Secretary of the Company on 31 October 2019. He is a Chartered Secretary and Chartered Governance Professional of both The Chartered Governance Institute, U.K. (formerly known as The Institute of Chartered Secretaries and Administrators, U.K.) and The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries). He has more than eleven years of experience in handling company secretarial and compliance related matters to Hong Kong listed companies. Mr. Qiu received a Bachelor’s degree of Administrative Studies with Honours from York University in Canada in 2005.

* For identification purpose only



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board (the “Board”) of directors (the “Directors”) of China Shun Ke Long Holdings Limited (the “Company”, with its subsidiaries, collectively, the “Group”) is committed to achieving high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework to safeguard the interests of shareholders of the Company (the “Shareholders”), to enhance corporate value and accountability, and to formulate its business strategies and policies for the development of the Group.

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code effective on or before 31 December 2021 (the “CG Code”) contained in Appendix 14 of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Board is of the view that for the year ended 31 December 2021, the Company has complied with all the code provisions as set out in the CG Code.

On 1 January 2022, the amendments to the Corporate Governance Code (the “New CG Code”) came into effect and the requirements under the New CG code will apply to corporate governance reports for financial year commencing on or after 1 January 2022. The Board will continue to review and enhance its corporate governance practice of the Company to ensure compliance with the New CG Code and align with the latest developments.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code for the year ended 31 December 2021 and they all confirmed that they have fully complied with the required standards as set out in the Model Code.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Directors during the year ended 31 December 2021 and up to the date of this annual report were as follows:

Executive Directors

Mr. Du Xiaoping (*Chairman*) (*resigned on 6 January 2022*)
Mr. Han Wei (*Chief Executive Officer*)
Mr. Shang Duoxu (*Chairman*) (*appointed on 25 February 2022*)

Non-Executive Director

Mr. Wang Fu Lin (*resigned on 6 January 2022*)
Ms. Wang Hui (*appointed on 25 February 2022*)

Independent Non-Executive Directors

Mr. Cheng Hok Kai Frederick
Mr. Wang Yilin
Mr. Zou Pingxue

An updated list of the Directors identifying their roles and functions is maintained on the websites of the Company and the Hong Kong Exchanges and Clearing Limited (“HKEx”). Independent non-executive Directors are identified as such in all corporate communications containing the name of the Directors.

None of the members of the Board has any relationship with one another (including financial, business, family or other material/relevant relationship(s)).

BOARD DIVERSITY

The Company adopted a board diversity policy (the “Board Diversity Policy”). The Company recognised the benefits of having a diverse Board to enhance the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board’s composition, Board diversity has been considered from a number of measurable aspects including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services, all of which the Company considers to be important to enhance the quality of its performance. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee of the Company will monitor the implementation of the Board Diversity Policy and recommend any proposed changes to the Board for approval. The nomination committee will from time to time review the Board Diversity Policy as appropriate to ensure its effectiveness.



CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

The Board meets regularly, and at least four times a year. For regular Board meetings, the Directors receive written notice of the meeting generally about 14 days in advance. For other meetings, the Directors are given as much notice as is reasonable and practicable in the circumstances. All the Directors have full and timely access to all the information of the Group as well as the services and advice from the company secretary and senior management of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company and they are at liberty to propose appropriate matters for inclusion in Board agendas. Pursuant to the Articles of Association of the Company, the Directors may participate in Board meetings in person, by phone or by other communication means.

Should a potential conflict of interest involving a substantial shareholder or a Director arise, the matter will be dealt with by a physical meeting rather than by written resolution. Pursuant to the Articles of Association of the Company, a Director who is considered to be materially interested in the matter shall abstain from voting on the resolution approving such matter.

During the year ended 31 December 2021, the Board held five meetings. The attendance record of individual Director is set out below. Figure in Brackets indicates the total number of meeting held in the period in which the individual was a Director.

Directors	Attendance
Executive Directors	
Mr. Shang Duoxu (<i>Chairman</i>) (<i>appointed on 25 February 2022</i>)	N/A
Mr. Han Wei (<i>Chief Executive Officer</i>)	5/(5)
Non-executive Director	
Ms. Wang Hui (<i>appointed on 25 February 2022</i>)	N/A
Independent Non-executive Directors	
Mr. Cheng Hok Kai Frederick	5/(5)
Mr. Wang Yilin	4/(5)
Mr. Zou Pingxue	5/(5)
Former Directors	
Mr. Du Xiaoping (<i>Chairman</i>) (<i>resigned on 6 January 2022</i>)	5/(5)
Mr. Wang Fu Lin (<i>resigned on 6 January 2022</i>)	5/(5)

Draft and final versions of minutes of each Board meeting are sent to all Directors for their comments and records respectively within a reasonable time. The Company also keeps detailed minutes of each Board meeting, which are available for inspection by all Directors.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance in respect of possible legal actions taken against the Directors and officers of the Group arising out of the corporate activities.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board takes decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

To comply with the requirements under the CG Code, the Board is also responsible for performing the corporate governance duties. During the year ended 31 December 2021, the Board has performed the corporate governance duties set out in D.3.1 of the CG Code, including but not limited to reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.



CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Directors shall keep abreast of responsibilities as director of the Company and of the conduct, business activities and development of the Group.

Every newly appointed director will receive formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with A.6.5 of the CG Code with regard to continuous professional development, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors and senior management are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2021, the key methods of attaining continuous professional development by each of the Directors are summarized as follows:

Directors	Attending conferences/ courses/seminars	Reading articles/ books/journals
Mr. Du Xiaoping (<i>Chairman</i>) (<i>resigned on 6 January 2022</i>)	✓	✓
Mr. Han Wei	✓	✓
Mr. Wang Fu Lin (<i>resigned on 6 January 2022</i>)	✓	✓
Mr. Cheng Hok Kai Frederick	✓	✓
Mr. Wang Yilin	✓	✓
Mr. Zou Pingxue	✓	✓

NON-EXECUTIVE DIRECTORS

A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 of the CG code states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

As at the date of this annual report, each of the Directors entered into a service agreement or letter of appointment for a term of three years. All Directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the first general meeting or next annual general meeting after appointment pursuant to the Articles of Association of the Company.

The Company has received all independent non-executive Directors' confirmation of independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that they are independent. None of them has served the Company for more than nine years.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established three committees, namely, the audit committee (the “Audit Committee”), remuneration committee (the “Remuneration Committee”) and nomination committee (the “Nomination Committee”) for overseeing particular aspects of the Company’s affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company’s website and the HKEx’s website and are available to the Shareholders upon request. Each of the committees is provided with sufficient resources to perform its duties.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. As at the date of this annual report, the Audit Committee comprises three members, namely Mr. Cheng Hok Kai Frederick (Chairman), Mr. Wang Yilin and Mr. Zou Pingxue. They are all independent non-executive Directors.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management systems of the Group; to oversee the audit process and the relationship with external auditor; to review arrangements enabling employees of the Group to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company; and to perform other duties and responsibilities as assigned by our Board.

During the year ended 31 December 2021, the Audit Committee reviewed the interim and annual results of the Group, and discussed and approved the relevant financial reports. It also reviewed and discussed the risk management and internal control systems of the Group. It also considered the appointment of the external auditors and discussed with external auditors the nature and scope of audit before any audit commences.

The Audit Committee held four meetings during the year ended 31 December 2021. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Audit Committee.

Members	Attendance
Mr. Cheng Hok Kai Frederick (<i>Chairman</i>)	4/(4)
Mr. Wang Yilin	3/(4)
Mr. Zou Pingxue	4/(4)



Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with paragraph B.1 of the CG Code. As at the date of this annual report, the Remuneration Committee comprises three members, namely Mr. Wang Yilin(Chairman), Mr. Zou Pingxue and Mr. Shang Duoxu. Mr. Shang Duoxu is an executive Director, while the remaining two members are independent non-executive Directors.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration; to make recommendations to the Board on the remuneration packages of executive Directors and senior management; and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year ended 31 December 2021, the Remuneration Committee has reviewed the remuneration policy and remuneration of executive Directors, and assessed performance of executive Directors.

During the year ended 31 December 2021, one Remuneration Committee meeting was held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Remuneration Committee.

Members	Attendance
Mr. Wang Yilin (<i>Chairman</i>)	1/(1)
Mr. Zou Pingxue	1/(1)
Mr. Shang Duoxu (<i>appointed on 25 February 2022</i>)	N/A
<i>Former committee member</i>	
Mr. Du Xiaoping (<i>resigned on 6 January 2022</i>)	1/(1)

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with paragraphs A.5 of the CG Code. As at the date of this annual report, the Nomination Committee has three members, namely Mr. Shang Duoxu (Chairman), Mr. Wang Yilin and Mr. Zou Pingxue. Mr. Shang Duoxu is the Chairman of the Board and an executive Director, while the remaining members are independent non-executive Directors.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the issuer's corporate strategy, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, and to assess the independence of independent non-executive Directors.

During the year ended 31 December 2021, the Nomination Committee reviewed the structure, composition and diversity of the Board of the Company; assessed the independence of the independent non-executive Directors; and recommended the Directors to be re-elected at the 2021 annual general meeting and new Directors before putting forth for discussion and approval by the Board.

CORPORATE GOVERNANCE REPORT



During the year ended 31 December 2021, one Nomination Committee meeting was held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Nomination Committee.

Members	Attendance
Mr. Shang Duoxu (<i>Chairman</i>) (<i>appointed on 25 February 2022</i>)	N/A
Mr. Wang Yilin	1/(1)
Mr. Zou Pingxue	1/(1)
<i>Former committee member</i>	
Mr. Du Xiaoping (<i>Chairman</i>) (<i>resigned on 6 January 2022</i>)	1/(1)

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for each financial period and confirmed that the consolidated financial statements contained herein give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of the consolidated financial performance and the consolidated cash flow of the Group for the year ended 31 December 2021.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

Statement of the external auditor's responsibilities in respect of the consolidated financial statements is set out in the Independent Auditor's Report of this annual report.

AUDITORS' REMUNERATION

The Company appointed SHINEWING (HK) CPA Limited as the external auditors for the year ended 31 December 2021. During the year ended 31 December 2021, the total fees paid/payable, excluding disbursements and taxes, in respect of audit and non-audit services provided by SHINEWING (HK) CPA Limited (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out below:

	RMB'000
Annual audit fee charged by SHINEWING (HK) CPA Limited	1,080
Interim review fee charged by SHINEWING (HK) CPA Limited	100

INTERNAL CONTROLS AND RISK MANAGEMENT

The Group strives to maintain the integrity of its business, results of operations and reputation by strictly adhering to an effective internal control and risk management systems in respect of its business. The Group has therefore implemented internal control procedures and manuals covering a number of key control areas such as tendering, purchase and procurement management, financial management, Human Resources and Payroll management, fixed asset management and safety and environment compliance management with a view to ensuring compliance by the Group with applicable laws, rules and regulations. The Board acknowledges that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.



CORPORATE GOVERNANCE REPORT

The Board, through the Audit Committee, is responsible for overseeing and monitoring the key measures adopted by the Group under the risk management and internal control systems relating to the business operations of the Company and assess the effectiveness regularly. Review on the risk management and internal control systems relating to the Group's business operations has been conducted for the year ended 31 December 2021.

For the year ended 31 December 2021, the Company did not have an internal audit function. The Company engaged an independent consultant to perform a review on the internal control and the risk management systems. The Board considers that it is more cost and result-effective to engage an external independent consultant instead of establishing an internal audit team. The results of the review were reported to the Audit Committee and measures and procedures were seriously considered by the Audit Committee after taking into account of the findings and recommendations of the independent consultant.

Based on the above, for the year ended 31 December 2021, the Board considered the Group's risk management and internal control systems as adequate and effective.

COMPANY SECRETARY

The Board appointed Mr. Qiu Minghao as the Company Secretary on 31 October 2019. During the year ended 31 December 2021, Mr. Qiu Minghao had taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Pursuant to Article 58 of the Articles of Association of the Company, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition; such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The written requisition shall be deposited at the principal place of business of the Company in Hong Kong at Suite 1404, 14/F, OfficePlus@WanChai, No. 303 Hennessy Road, Wan Chai, Hong Kong or, in the event the Company ceases to have such place of business, the registered office of the Company at Vistra (Cayman) Limited, P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands. The requisition must state clearly the name of the requisitionist(s), his/her/their shareholding in the Company, the reason(s) to convene the EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM and signed by the requisitionist(s).

The Shareholders may at any time send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Suite 1404, 14/F, OfficePlus@WanChai, No. 303 Hennessy Road, Wan Chai, Hong Kong by post or by email at ir@skl.com.cn for the attention of the Company Secretary of the Company. The Company Secretary will be responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and enquiries, to the Chief Executive Officer of the Company. The Shareholders may also raise their enquiries in general meetings.

CORPORATE GOVERNANCE REPORT



COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. Information would be communicated to the Shareholders mainly through the Company's corporate communications (such as interim and annual reports, announcements and circulars), annual general meetings and other general meetings, as well as disclosure on the website of the Company. Interim reports, annual reports and circulars are sent to the Shareholders in a timely manner and are also available on the website of the Company.

The Company endeavours to maintain an on-going dialogue with the Shareholders and in particular, through annual general meeting (the "AGM") and other general meeting. At the AGM, the Directors (or their delegates as appropriate) are available to meet the Shareholders and answer their enquiries. The chairman of the AGM proposes separate resolutions for each issue to be considered. AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The chairman of the AGM exercises his power under the Articles of Association of the Company to put each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website and HKEx's website on the day of the AGM.

During the year ended 31 December 2021, the Company held one general meeting. The attendance record of individual Directors is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a Director of the Company.

Directors	Attendance
Executive Directors	
Mr. Shang Duoxu (<i>Chairman of the Board</i>) (<i>appointed on 25 February 2022</i>)	N/A
Mr. Han Wei	1/(1)
Non-executive Director	
Ms. Wang Hui (<i>appointed on 25 February 2022</i>)	N/A
Independent Non-executive Directors	
Mr. Cheng Hok Kai Frederick	1/(1)
Mr. Wang Yilin	1/(1)
Mr. Zou Pingxue	1/(1)
Former Directors	
Mr. Du Xiaoping (<i>Chairman of the Board</i>) (<i>resigned on 6 January 2022</i>)	1/(1)
Mr. Wang Fu Lin (<i>resigned on 6 January 2022</i>)	1/(1)

CONSTITUTIONAL DOCUMENT

During the year ended 31 December 2021, the Company has not made any changes to the Articles of Association of the Company. An up-to-date version of the Memorandum and Articles of Association is available on the Company's website and the HKEx's website.

* For identification purpose only



DIRECTORS' REPORT

The board (the “Board”) of the China Shun Ke Long Holdings Limited (the “Company”) is pleased to present this directors' report along with the audited consolidated financial statements (the “Financial Statements”) of the Company for the year ended 31 December 2021 (the “FY2021”).

DIRECTORS

The directors of the Company (the “Directors”) during the year ended 31 December 2021 and up to the date of this annual report were as follows:

Executive Directors

Mr. Du Xiaoping (*Chairman*) (*resigned on 6 January 2022*)

Mr. Han Wei (*Chief Executive Officer*)

Mr. Shang Duoxu (*Chairman*) (*appointed on 25 February 2022*)

Non-Executive Directors

Mr. Wang Fu Lin (*resigned on 6 January 2022*)

Ms. Wang Hui (*appointed on 25 February 2022*)

Independent Non-Executive Directors

Mr. Cheng Hok Kai Frederick

Mr. Wang Yilin

Mr. Zou Pingxue

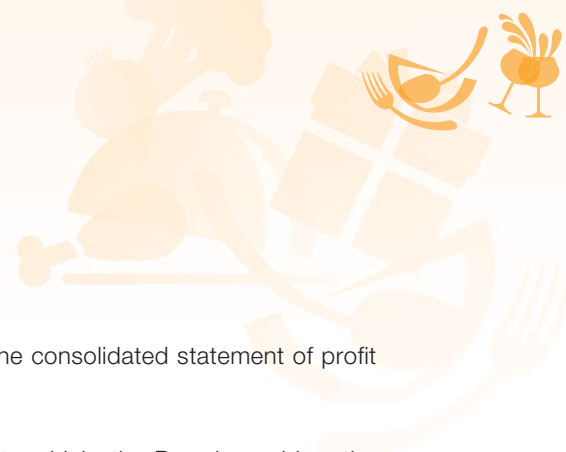
PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Company and its subsidiaries (the “Group”) is a supermarket chain store operator with geographical focus in Guangdong province of the People's Republic of China (the “PRC”) and maintains both retail and wholesale distribution channels.

BUSINESS REVIEW

A fair business review of the Group as required under Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion and analysis of the Group's performance during the year ended 31 December 2021, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred after 31 December 2021 (if any) as well as an indication of likely future development in the business of the Group are provided in the sections “Chairman's Statement” and “Management Discussion and Analysis” on pages 4 to 16 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are provided in the “Environmental, Social and Governance Report”, which will be provided by a stand-alone report during May 2022 on the websites of the Company and the Hong Kong Exchanges and Clearing Limited (“HKEx”).

DIRECTORS' REPORT



RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 52 of this annual report.

The Company has adopted a dividend policy (the “Dividend Policy”), pursuant to which, the Board considers the following factors to decide whether to announce a dividend, including but not limited to:

- the general financial performance of the Group;
- availability of sufficient retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Company’s shareholders’ interests as a whole;
- the actual and future operations and liquidity positions of the Group;
- the Group’s expected working capital requirements, capital expenditure requirements, investment plans and business expansion plans;
- the Group’s financing requirements;
- legal and other restrictions on the payment of dividends by the Company;
- possible financial effects on the Company’s cashflow and financial condition;
- statutory, regulatory and contractual restrictions on the Company and its subsidiaries;
- the general market conditions, business cycle of the Group’s business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and
- Any other factor that the Board deems appropriate and relevant.

The Board has resolved not to declare any final dividend for the year ended 31 December 2021.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the most recent five years is set out in the section headed “Financial Summary” on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the year ended 31 December 2021 are set out in notes 13 and 15 to the Financial Statements of this annual report.

SHARE CAPITAL

Details of the Company’s authorised and issued share capital as at 31 December 2021 are set out in note 26 to the Financial Statements of this annual report.

DIRECTORS' REPORT

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2021 are set out in the consolidated statement of changes in equity on page 55 of this annual report.

LISTING

The shares of the Company (the "Shares") were successfully listed (the "Listing") on The Stock Exchange on 10 September 2015 (the "Listing Date") through an offering of Shares (the "Global Offering"). For the details of the Global Offering, please refer to the prospectus issued by the Company (the "Prospectus") on 28 August 2015. In the Global Offering, 75,600,000 Shares were issued at HK\$2.88 each and the total gross proceeds received amounted to approximately HK\$217.7 million (equivalent to approximately RMB178.9 million).

USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and related expenses, amounted to approximately HK\$188.6 million (equivalent to approximately RMB155.0 million), was intended to be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Nonetheless, the Board constantly evaluates the prospect of the retail market and the PRC's economic conditions to determine the most efficient and effective method to deploy the Group's resources. As reference is made to the announcement issued by the Company dated 24 October 2016, the Board considered that if the net proceeds were still allocated as the original manner as stipulated in the Prospectus, it would not be cost effective and at the best interests of the Company and its Shareholders. In view of the recent slowdown in economic growth in the PRC, the Company has been slowing down the pace of opening new retail outlets and thus freeing up proceeds originally intended to be used for such purpose. With a view to better use the net proceeds from the Global Offering, the Company has decided to re-allocate parts of the unutilized proceeds to upgrade the existing retail outlets to enhance the Group's competitiveness as one of the major market players in Guangdong province and repay the bank borrowings to reduce the Group's finance costs in the manner as stated below.

	Original allocation of net proceeds		Revised allocation of the net proceeds		Utilization as at 31 December 2021		Remaining balance of net proceeds as at 31 December 2021	
	RMB million	% of net proceeds	RMB million	% of net proceeds	RMB million	% of net proceeds	RMB million	% of net proceeds
Opening of new retail outlets	116.9	75.4%	74.4	48.0%	74.4	48.0%	–	0%
Upgrading existing retail outlets	–	0.0%	14.6	9.4%	14.6	9.4%	–	0%
Repayment of bank borrowings	–	0.0%	27.9	18.0%	27.9	18.0%	–	0%
Information systems upgrades	11.2	7.2%	11.2	7.2%	11.2	7.2%	–	0%
Upgrading and expanding the existing two distribution centres	13.3	8.6%	13.3	8.6%	0	0%	13.3	8.6%
General working capital	13.6	8.8%	13.6	8.8%	13.6	8.8%	–	0%
Total	<u>155.0</u>	<u>100.0%</u>	<u>155.0</u>	<u>100.0%</u>	<u>141.7</u>	<u>91.4%</u>	<u>13.3</u>	<u>8.6%</u>

DIRECTORS' REPORT

COMPETING BUSINESS

CCOOP Group Co. Limited* (“CCOOP”) (供銷大集集團股份有限公司), the controlling shareholder of the Company (as defined in the Listing Rules) (the “Controlling Shareholder”), is principally engaged in the retail chain and department store businesses in the PRC and hence was interested in the businesses which competed or were likely to compete, either directly or indirectly, with the Group’s businesses during the year ended 31 December 2021. Mr. Du Xiaoping (“Mr. Du”) and Mr. Wang Fu Lin (“Mr. Wang”) were an executive Director and non-executive Director of the Company respectively who resigned on 6 January 2022. Mr. Shang Duoxu (“Mr. Shang”) and Mr. Han Wei (“Mr. Han”) are executive Directors of the Company, and Ms. Wang Hui (“Ms. Wang”) is non-executive Director of the Company currently. Mr. Du, Mr. Wang, Mr. Shang, Mr. Han and Ms. Wang were/are directors or supervisor of CCOOP. Pursuant to Rule 8.10(2) of the Listing Rules, all of them were/are considered to have interest in the business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

The Directors are fully aware of, and have been discharging, their fiduciary duty to the Company with the belief that the Group’s interests are adequately protected by good corporate governance practices and the involvement of the independent non-executive Directors.

Save as disclosed above, as at the date of this report, none of the Directors and their respective close associates were considered to have interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the share option scheme of the Company (the “Share Option Scheme”) conditionally adopted by the resolutions in writing of the Shareholders passed on 19 August 2015. All conditions, to which the Share Option Scheme was subject to, had been fulfilled on or before the Listing Date. As at the date of this annual report, no option has been granted under the Share Option Scheme and the Company does not have any other share option scheme.

1 Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph 2 below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2 Eligible Participants

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 8 below to the following (the "Eligible Participants"):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including executive, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, agents and related entities to the Company or any of its subsidiaries.

3 Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares immediately following the completion of Global Offering (excluding the Shares issued upon the partial exercise of the over-allotment option relating to the Global Offering), being 28,647,700 Shares (or approximately 9.86% of the issued Shares as at the date of this annual report). Subject to the issue of a circular by the Company, the approval of the Shareholders in a general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board.

Notwithstanding the foregoing, the 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 at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. As at the date of this annual report, the Company does not have any other share option scheme.



4 Maximum entitlement

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company, the approval of the Shareholders in a general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting.

Any grant of options to a Director, chief executive or substantial Shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the Independent Non-Executive Directors (excluding any Independent Non-Executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial Shareholder or any Independent Non-Executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon the exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in a general meeting on a poll at which all core connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

5 Exercisable Period

The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

6 Vesting Period

There is no minimum period for which an option must be held before it can be exercised.

7 Consideration

Upon acceptance of the option, the grantee shall pay HK\$1.0 to the Company as the consideration for the grant. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

8 Exercise Price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

9 Life Span

No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions

On 12 November 2020, the Company (for itself and on behalf of its subsidiaries) entered into a sale of goods agreement (the "Sale of Goods (2021) Agreement") with CCOOP (for itself and on behalf of its subsidiaries) for a term of three years from 1 January 2021. The Sale of Goods (2021) Agreement serves as a framework to govern the sale of SKL Goods (as defined below) from the Group to CCOOP and its subsidiaries (the "CCOOP Group"), and sets out the principles and basis in particular with respect to the pricing on which the sale of SKL Goods may be conducted.

On the same day, the Company also entered a purchase of goods agreement (the "Purchase of Goods (2021) Agreement") with CCOOP (for itself and on behalf of its subsidiaries) for a term of three years from 1 January 2021. The Purchase of Goods (2021) Agreement serves as a framework to govern the purchase of CCOOP Goods (as defined below) by the Group from CCOOP Group, and sets out the principles and basis in particular with respect to the pricing on which the purchase of CCOOP Goods may be conducted.

CCOOP is a controlling shareholder indirectly holding approximately 70.42% of the issued shares of the Company through CCOOP International Holdings Limited. Therefore, CCOOP is a connected person of the Company, and the transactions (the "Transactions") contemplated under the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement (the "Agreements") constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Agreements, the Transactions and the proposed annual caps under each of the Agreements are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements in Chapter 14A of the Listing Rules. Details of the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement were disclosed in the announcement and the circular of the Company dated 12 November 2020 and 4 December 2020, respectively. The Agreements, the Transactions and the proposed annual caps under each of the Agreements had been duly passed by way of poll at the extraordinary general meeting of the Company held on 23 December 2020.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules and save as disclosed above, there were no other transactions which need to be disclosed as continuing connected transactions in accordance with the requirements of the Listing Rules.

Sales of goods

CCOOP Group has been one of the bulk purchase customers of the Group these years. Pursuant to the Sale of Goods (2021) Agreement, the Group may sell all goods sold or to be sold by the Group to the CCOOP Group, including but not limited to non-staple foods, fresh food, daily consuming products, cosmetics, clothing, home appliances, but excluding any goods to be purchased or contracted to be purchased under the Purchase of Goods (2021) Agreement (the "SKL Goods"). The sale of SKL Goods are within the ordinary course of business of the Group.

The price of SKL Goods will be determined after arm's length negotiation on a cost plus basis and case-by-case basis. The percentage markup will be determined by a number of factors including (i) the price set for SKL Goods in previous transactions; (ii) the then prevailing market prices of SKL Goods and of similar products; and (iii) the discount offered by the Group to other third party wholesaling customers. The percentage markup of the cost-plus basis is usually in the range of 2% to 5% for wholesale of products similar to SKL Goods. The price of SKL Goods offered to CCOOP Group should be not less than the price offered to other third party customers ordering similar quantity and product mix of SKL Goods on similar conditions such as credit terms and delivery requirements.

The annual caps for the three years ending 31 December 2023 under the Sale of Goods (2021) Agreement are RMB60 million, RMB80 million and RMB100 million respectively. They were determined by reference to various factors, including but not limited to, (i) the quantity demanded by CCOOP Group for SKL Goods as estimated by CCOOP Group on a without-commitment basis; (ii) the historical transaction amounts under the Goods Sales Agreement; (iii) the growth in demand of SKL Goods following the Group's expansion plan to expand the Group's sales channel geographically across the PRC; (iv) the costs of SKL Goods and the cost-plus basis adopted by the Group; and (v) the expected market prices of SKL Goods.

The total amount in respect of the transactions under the Sale of Goods (2021) Agreement for the FY2021 is set out in notes 24 and 29 to the Financial Statements of this annual report.

Purchase of goods

Pursuant to the Purchase of Goods (2021) Agreement, the Group may purchase all goods sold or to be sold by CCOOP Group, including but not limited to non-staple foods, fresh food, daily consuming products, cosmetics, clothing, home appliances, but excluding any goods to be sold or contracted to be sold under the Sale of Goods (2021) Agreement (the "CCOOP Goods"). The purchase of CCOOP Goods are within the ordinary course of business of the Group.

The price of CCOOP Goods will be determined after arm's length negotiation on a case-by-case basis, with reference to (i) the prevailing and historical market price of CCOOP Goods; (ii) the then prevailing market prices of similar products; and (iii) the discounts offered by CCOOP Group to other third parties customers for wholesaling. The price of CCOOP Goods should not be higher than the price offered by other third party suppliers to the Group for CCOOP products with similar quantity and product mix on similar terms.

The annual caps for the three years ending 31 December 2023 under the Purchase of Goods (2021) Agreement are RMB20 million, RMB40 million and RMB60 million respectively. They were determined by reference to various factors, including but not limited to, (i) the types and quantities of CCOOP Goods that may be demanded by the customers of the Group; (ii) the historical transaction amounts; (iii) the Group's expansion plan to expand the Group's sales channel into online sales platform; (iv) the Group's expansion plan to source products across the PRC; (v) the current price of CCOOP Goods; and (vi) the buffer for possible increase in the price of CCOOP Goods.

The total amount in respect of the transactions under the Purchase of Goods (2021) Agreement for the FY2021 is set out in notes 24 and 29 to the Financial Statements of this annual report.

Confirmation from the Auditor and Independent Non-Executive Directors

The Company's auditor, SHINEWING (HK) CPA Limited, was engaged to report on the Group's continuing connected transactions for the year ended 31 December 2021 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of continuing connected transactions set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DIRECTORS' REPORT

In accordance with Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the Transactions and confirmed that Transactions have been entered into:

- (i) in the ordinary and usual course of business of the Company/the Group;
- (ii) on normal commercial terms or better;
- (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and
- (iv) have not exceeded the relevant annual caps as disclosed in previous announcements.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Transactions are fair and reasonable, on normal commercial terms and in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in the normal course of business are set out in notes 24 and 29 to the Financial Statements of this annual report. Those related party transactions, which constituted connected transactions not being exempt from annual reporting requirement under the Listing Rules, are set out in the section headed "Continuing Connected Transactions" above.

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 ended 31 December 2021.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers all of the independent non-executive Directors are independent in accordance with rule 3.13 of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, none of the Directors, the Chief Executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, so far as was known to the Directors of the Company, the interests or short position of persons, other than the Directors or the Chief Executive of the Company, in the Shares and underlying shares of the Company which would be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Number of Shares (long position)	Approximate percentage of shareholding
Cihang Sino-Western Cultural and Educational Exchange Foundation Limited (慈航東西方文教交流基金會有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
Pan-American Aviation Holding Company (Note)	Interest of a controlled corporation	204,558,317	70.42%
Tang Dynasty Development Co., Ltd. (盛唐發展有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
Hainan Province Cihang Foundation (海南省慈航公益基金會) (Note)	Interest of a controlled corporation	204,558,317	70.42%
Tang Dynasty Development (Yangpu) Company Limited (盛唐發展(洋浦)有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
Hainan Traffic Administration Holding Co., Ltd. (海南交管控股有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
HNA Group Co., Ltd. (海航集團有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
CCOOP Group Co., Ltd. (供銷大集集團股份有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
Hainan Gongxiao Daji Holding Ltd. (海南供銷大集控股有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
Hainan Gongxiao Daji Supply Chain Network Technology Ltd. (海南供銷大集供銷鏈網絡科技有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
Green Industrial (HK) Holding Co., Limited (綠色實業(香港)有限公司) (Note)	Interest of a controlled corporation	204,558,317	70.42%
CCOOP International Holdings Limited (供銷大集國際控股有限公司)	Beneficial owner	204,558,317	70.42%
Infini Capital Management	Beneficial owner	27,600,000	9.50%
Golden Prime Holdings Limited	Beneficial owner	25,988,000	8.95%

Note: These parties were deemed to have interests in 204,558,317 Shares by virtue of their equity interests in CCOOP International Holdings Limited.

Shareholders are advised to refer the Company's announcement dated 31 January 2021, 4 February 2021, 10 February 2021, 25 October 2021 and 1 November 2021 for matters relating to the Company's relevant controlling Shareholders and substantial Shareholders.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

No Director has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 to the Financial Statements of this annual report headed "Related Party Transactions" and the section headed "Continuing Connected Transactions" above, the Group did not have any transaction, arrangement, or contract of significance subsisting as at 31 December 2021 or during the year ended 31 December 2021 in which a Director or an entity connected with a Director was, either directly or indirectly, materially interested.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

During the year ended 31 December 2021, the Company or any of its subsidiaries had no arrangements to enable the Directors or executives of the Company (including their spouse and children under 18 years of age) to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

CHANGES IN DIRECTORS' INFORMATION UNDER RULE 13.51B (1) OF THE LISTING RULES

- (i) Mr. Han Wei, an executive Director and the Chief Executive Officer of the Company, has been a senior economist since 2021.
- (ii) Mr. Cheng Hok Kai Frederick, an independent non-executive Director of the Company, has resigned as an independent non-executive director, the chairman of the audit committee, and a member of each of the nomination and remuneration committees of Luzhou Xinglu Water (Group) Co., Ltd. (瀘州市興瀘水務(集團)股份有限公司)(a company listed on the Stock Exchange, stock code: 2281) since March 2022.
- (iii) Mr. Zou Pingxue, an independent non-executive Director of the Company, has served as the director and a member of academic committee of the Center for Issues of Hong Kong and Macau Special Administrative Regions of Shenzhen University* (深圳大學港澳及國際問題研究中心) since 2021.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS AND REMUNERATION POLICY

Details of the Directors' remuneration and five highest paid individuals of the Group are set out in note 9 to the Financial Statements of this annual report.

The Remuneration Committee has reviewed overall remuneration policy and structure relating to all Directors and senior management members of the Group in reference to the Group's operating results and individual performance.

The Company also adopted a share option scheme on 19 August 2015. Details of which are set out in the section headed "Share Option Scheme" of this directors' report.



DIRECTORS' REPORT

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in note 29 to the Financial Statements of this annual report headed “Related Party Transactions” and the section “Continuing Connected Transactions” above, no contract of significance was entered into between the Company, or any of its subsidiaries, and any controlling shareholder or any its subsidiaries during the year ended 31 December 2021.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with a Director or any person engaged in the full-time employment of the Company, 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 ended 31 December 2021.

PERMITTED INDEMNITY PROVISION

According to Article 164 of the articles of association of the Company, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors and senior management arising out of corporate activities for the year ended 31 December 2021 and up to date of this annual report, and such permitted indemnity provision is currently in force.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or applicable laws of the Cayman Islands where the Company is incorporated.

TAX RELIEF

The Company is not aware of any tax relief available for the Shareholders by reason of their holding of the Shares.

EMOLUMENT POLICY

Employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications, competence and contribution to the Group. The Company also has adopted the Share Option Scheme as a long-term incentive scheme of the Group.

PROPERTY HELD

As at 31 December 2021, there was no property held for development and/or sale or for investment purpose for which the percentage ratios, as defined under Rule 14.04(9) of the Listing Rules, exceeded 5%.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the Shareholders as at 31 December 2021 amounted to approximately RMB169.9 million.

AUDITOR

SHINEWING (HK) CPA Limited has been auditors of the Company since 29 December 2017. The financial statements for the year ended 31 December 2021 have been audited by SHINEWING (HK) CPA Limited. SHINEWING (HK) CPA Limited will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution for the reappointment of SHINEWING (HK) CPA Limited as the auditors of the Company is expected to be proposed at the forthcoming annual general meeting of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2021, the percentages of purchases from the Group's largest supplier and the five largest suppliers were 7.08% and 18.39% respectively. For the year ended 31 December 2021, the percentage of revenue attributable to the Group's five largest customers was 7.49%.

During the year ended 31 December 2021, none of the Directors or any of their close associates, or any Shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

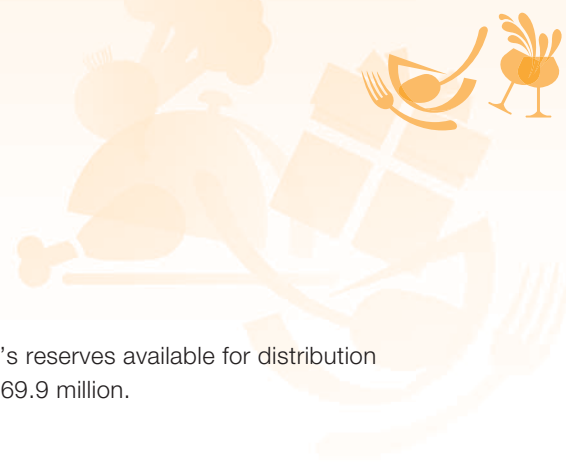
A report on the principal corporate governance practices adopted by the Company is set out on pages 22 to 31 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float under the Listing Rules for the year ended 31 December 2021 and up to the date of this annual report.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed the Financial Statements and met with the auditors of the Company, without the presence of the executive Directors. In addition, the Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company, risk management and internal control systems with senior management members of the Company.





DIRECTORS' REPORT

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant events requiring disclosure that has taken place subsequent to 31 December 2021 and up to the date of this annual report.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company ("AGM") will be held on Wednesday, 8 June 2022 at Conference Room 1605, Section West, 16/F, HNA Building, No.7 Guoxing Avenue, Meilan District, Haikou City, Hainan Province, China. The register of members of the Company will be closed from 2 June 2022 to 8 June 2022, both days inclusive, during which period no transfer of shares will be effected.

In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 1 June 2022.

By order of the Board

Shang Duoxu

Chairman and Executive Director

Hong Kong, 30 March 2022

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT



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

信永中和(香港)會計師事務所有限公司
香港銅鑼灣希慎道33號
利園一期43樓

TO THE MEMBERS OF CHINA SHUN KE LONG HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Shun Ke Long Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 52 to 128, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) 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 (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (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.



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Impairment test on retail outlet operation cash generating units

Refer to notes 13 and 14 to the consolidated financial statements.

The key audit matter

The Group's retail outlet operation cash generating units ("Retail outlet CGUs") consisted of certain property, plant and equipment and right-of-use assets with carrying values of RMB35,474,000 and RMB109,138,000 respectively as at 31 December 2021. During the year ended 31 December 2021, an impairment loss of RMB12,000 was recognised against property, plant and equipment in relation to retail outlet operation cash generating unit in Macau.

We have identified the impairment assessment of the Retail outlet CGUs as a key audit matter because of its significance to the consolidated financial statements and because determination of the recoverable amount of the relevant cash generating unit required significant management judgement and assumptions made for the profit and cash flow forecasts.

How the matter was addressed in our audit

Our audit procedures were designed to assess the reasonableness of the selection of valuation model, adoption of key assumptions and input data by reference to the historical information together with other external available information. In particular, we have tested the future cash flow forecast prepared by management on whether it is agreed to the budget approved by the directors of the Company and compared the budget with actual results available up to the report date. We have also evaluated the appropriateness of the assumptions, including the future revenue, the future expenses and profit margin, against latest market expectations.

We have also assessed the discount rate employed in the calculation of value-in-use by reviewing its basis of calculation and comparing its input data to market sources.

As any changes in these assumptions and input to valuation model may result in significant financial impact, we have tested management's sensitivity analysis in relation to the key inputs to the impairment assessment which included changes in future revenue and expenses.

INDEPENDENT AUDITOR'S REPORT



KEY AUDIT MATTERS – CONTINUED

Valuation of trade receivables

Refer to note 18 to the consolidated financial statements.

The key audit matter

As at 31 December 2021, the Group had trade receivables of RMB24,259,000, net of accumulated impairment loss of RMB1,295,000.

Allowance for impairment of trade receivables is based on expected credit losses (“ECL”), which is estimated by taking into account the credit loss experience and forward-looking information including both current and forecast general economic conditions.

We have identified valuation of trade receivables as a key audit matter because the impairment assessment of trade receivables involved a significant degree of management judgement and may be subject to management bias.

How the matter was addressed in our audit

Our audit procedures were designed to assess the assumptions and judgements of the Group’s ECL model on impairment assessment of trade receivables.

We have assessed the reasonableness of management’s estimates for impairment allowance by examining the information used by management to form such judgements, including testing accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information.

We have also inspected cash received from debtors after year end relating to trade receivables balance as at 31 December 2021 on a sample basis.

OTHER INFORMATION

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

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

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



INDEPENDENT AUDITOR'S REPORT

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

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

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

The audit committee 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 HKSAAs 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 HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

INDEPENDENT AUDITOR'S REPORT

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

- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Wong Hon Kei, Anthony.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Wong Hon Kei, Anthony

Practising Certificate Number: P05591

Hong Kong

30 March 2022

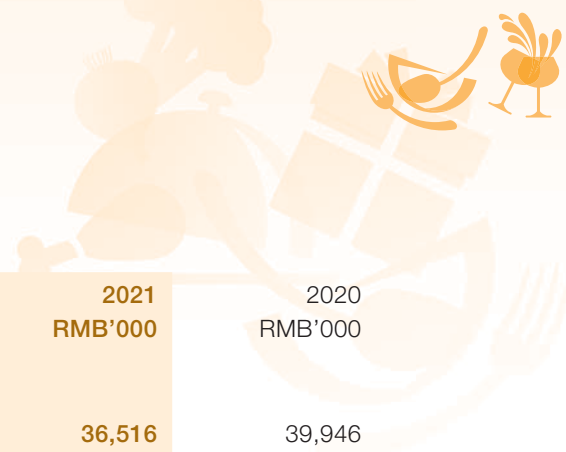
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	6	741,635	888,749
Cost of inventories sold		<u>(633,792)</u>	<u>(762,932)</u>
Gross profit		107,843	125,817
Other operating income	6	30,664	34,963
Selling and distribution costs		(133,939)	(127,334)
Administrative expenses		(31,841)	(36,148)
Finance costs	7	(10,590)	(11,483)
Impairment loss recognised in respect of property, plant and equipment	13	(12)	(559)
Impairment loss reversed (recognised) in respect of trade receivables	18	<u>206</u>	<u>(1,501)</u>
Loss before tax	8	(37,669)	(16,245)
Income tax expense	10	<u>(588)</u>	<u>(222)</u>
Loss for the year		(38,257)	(16,467)
Other comprehensive expense			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements from functional currency to presentation currency		<u>(364)</u>	<u>(1,661)</u>
Loss and total comprehensive expense for the year		<u><u>(38,621)</u></u>	<u><u>(18,128)</u></u>
Loss for the year attributable to:			
Owners of the Company		(38,045)	(16,501)
Non-controlling interests		<u>(212)</u>	<u>34</u>
		<u><u>(38,257)</u></u>	<u><u>(16,467)</u></u>
Loss and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(38,409)	(18,162)
Non-controlling interests		<u>(212)</u>	<u>34</u>
		<u><u>(38,621)</u></u>	<u><u>(18,128)</u></u>
Loss per share	11		
Basic (RMB)		<u><u>(0.13)</u></u>	<u><u>(0.06)</u></u>
Diluted (RMB)		<u><u>(0.13)</u></u>	<u><u>(0.06)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021



	Notes	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	13	36,516	39,946
Right-of-use assets	14	110,756	124,500
Investment properties	15	9,351	9,678
Deposits paid	16	14,310	12,320
		<u>170,933</u>	<u>186,444</u>
Current assets			
Inventories	17	107,783	143,926
Trade and bills receivables	18	24,692	35,440
Deposits paid, prepayments and other receivables	16	74,192	86,808
Amounts due from related companies	24	642	194
Financial assets at fair value through profit or loss	19	–	43,500
Cash and cash equivalents	20	103,343	103,970
		<u>310,652</u>	<u>413,838</u>
Current liabilities			
Trade payables	21	79,838	102,800
Deposits received, receipts in advance, accruals and other payables	22	28,036	27,405
Lease liabilities	14	38,169	31,535
Contract liabilities	23	18,634	14,016
Bank borrowings	25	60,000	108,000
Tax payable		25	247
		<u>224,702</u>	<u>284,003</u>
Net current assets		<u>85,950</u>	<u>129,835</u>
Total assets less current liabilities		<u>256,883</u>	<u>316,279</u>
Non-current liability			
Lease liabilities	14	56,035	76,810
		<u>56,035</u>	<u>76,810</u>
Net assets		<u>200,848</u>	<u>239,469</u>



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Capital and reserves			
Share capital	26	2,387	2,387
Reserves		197,364	235,773
		<hr/>	<hr/>
Equity attributable to owners of the Company		199,751	238,160
Non-controlling interests		1,097	1,309
		<hr/>	<hr/>
Total equity		200,848	239,469
		<hr/> <hr/>	<hr/> <hr/>

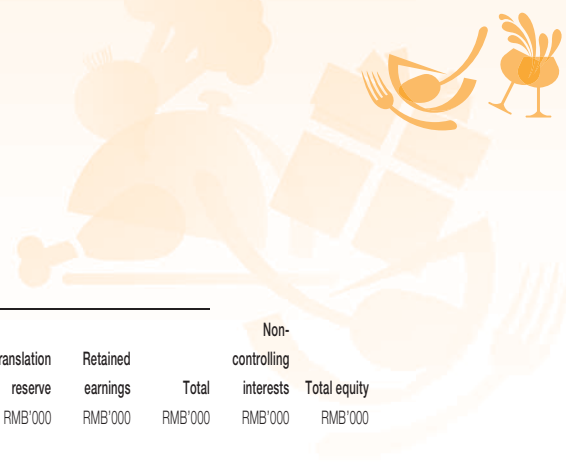
The consolidated financial statements on pages 52 to 128 were approved and authorised for issue by the board of directors on 30 March 2022 and are signed on its behalf by:

Shang Duoxu
Director

Han Wei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021



	Equity attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Merger reserve	Capital reserve	Statutory reserve	Capital			Retained earnings	Non-controlling interests	Total equity
							contribution reserve	Translation reserve	Total			
RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000 (Note d)	RMB'000 (Note e)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020	2,387	169,904	84	(6,200)	200	15,477	873	6,563	67,034	256,322	1,275	257,597
(Loss) profit for the year	-	-	-	-	-	-	-	-	(16,501)	(16,501)	34	(16,467)
Other comprehensive expense for the year												
Exchange differences arising on translation of financial statements from functional currency to presentation currency	-	-	-	-	-	-	-	(1,661)	-	(1,661)	-	(1,661)
Total comprehensive (expense) income for the year	-	-	-	-	-	-	-	(1,661)	(16,501)	(18,162)	34	(18,128)
Transfer to statutory reserve	-	-	-	-	-	279	-	-	(279)	-	-	-
Balance at 31 December 2020 and 1 January 2021	2,387	169,904	84	(6,200)	200	15,756	873	4,902	50,254	238,160	1,309	239,469
Loss for the year	-	-	-	-	-	-	-	-	(38,045)	(38,045)	(212)	(38,257)
Other comprehensive expense for the year												
Exchange differences arising on translation of financial statements from functional currency to presentation currency	-	-	-	-	-	-	-	(364)	-	(364)	-	(364)
Total comprehensive expense for the year	-	-	-	-	-	-	-	(364)	(38,045)	(38,409)	(212)	(38,621)
Transfer to statutory reserve	-	-	-	-	-	12	-	-	(12)	-	-	-
Balance at 31 December 2021	<u>2,387</u>	<u>169,904</u>	<u>84</u>	<u>(6,200)</u>	<u>200</u>	<u>15,768</u>	<u>873</u>	<u>4,538</u>	<u>12,197</u>	<u>199,751</u>	<u>1,097</u>	<u>200,848</u>

Notes:

(a) Special reserve

Special reserve represents the investment cost of a subsidiary which has been carved out of the Group as part of the reorganisation and the proceeds from disposal of that subsidiary.

(b) Merger reserve

The merger reserve of the Group arose as a result of the reorganisation. As at 31 December 2021 and 2020, the balance of merger reserve included the deemed distribution upon the acquisition of a subsidiary from the controlling shareholders as part of the reorganisation.

(c) Capital reserve

Capital reserve represents the capital contribution from the previous shareholders to a subsidiary of the Group.

(d) Statutory reserve

In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

(e) Capital contribution reserve

Capital contribution reserve of the Group represented the capital contribution upon acquisition of the net assets of a subsidiary pursuant to a group reorganisation.


CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
OPERATING ACTIVITIES		
Loss before tax	(37,669)	(16,245)
Adjustments for:		
Interest income on bank deposits	(1,689)	(1,101)
Interest income from financial assets at fair value through profit or loss	(289)	(895)
Depreciation of investment properties	327	327
Depreciation of property, plant and equipment	12,397	11,616
Depreciation of right-of-use assets	40,302	38,113
Government grants	(2,443)	(3,591)
Impairment loss (reversed) recognised in respect of trade receivables	(206)	1,501
Impairment loss recognised in respect of property, plant and equipment	12	559
Gain on leases termination	(424)	(286)
Rent concessions related to COVID-19	(2,147)	(274)
Finance costs	10,590	11,483
Gain on disposal of property, plant and equipment	(681)	(44)
Obsolete inventories written off	2,074	953
	<hr/>	<hr/>
Operating cash flows before movements in working capital	20,154	42,116
Decrease (increase) in inventories	34,037	(14,164)
Decrease (increase) in trade and bills receivables	10,954	(13,356)
Decrease in deposits paid, prepayments and other receivables	10,742	20,192
(Increase) decrease in amounts due from related companies	(205)	3,001
Decrease in trade payables	(22,909)	(13,297)
Increase in deposits received, receipts in advance, accruals and other payables	736	511
Increase in contract liabilities	4,618	909
	<hr/>	<hr/>
Cash generated from operations	58,127	25,912
Income tax paid	(810)	(165)
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	57,317	25,747
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at FVTPL	43,789	381,895
Interest received	1,579	1,379
Proceeds on disposal of property, plant and equipment	971	266
Purchases of property, plant and equipment	(9,269)	(7,838)
Advance to related companies	(243)	-
Purchases of financial assets at FVTPL	-	(404,500)
Withdrawal of a deposit with a bank	-	25,243
	<hr/>	<hr/>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	36,827	(3,555)
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021



	2021 RMB'000	2020 RMB'000
FINANCING ACTIVITIES		
Bank borrowings repaid	(108,000)	(108,000)
Repayment of capital element of lease liabilities	(38,128)	(31,367)
Interest paid on lease liabilities and bank borrowings	(10,665)	(11,326)
New bank borrowings raised	60,000	108,000
Government grants received	2,443	3,591
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(94,350)	(39,102)
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(206)	(16,910)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	103,970	122,635
	<hr/>	<hr/>
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(421)	(1,755)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	103,343	103,970
	<hr/> <hr/>	<hr/> <hr/>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL

China Shun Ke Long Holdings Limited (the “Company”, together with its subsidiaries, collectively referred to as the “Group”) was incorporated as an exempted company with limited liability in the Cayman Islands on 18 March 2013 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s registered office is located at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, the Cayman Islands and its principal place of business in the PRC is located at Floor 3, Huale Building, No.60 Hebin North Road, Lecong Town Shunde District, Foshan, Guangdong Province 528315, the PRC.

The Company was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 May 2015. The ordinary shares of the Company (the “Shares”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10 September 2015.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 34.

CCOOP International Holdings Limited, which is a company incorporated in the Cayman Islands and an indirectly wholly-owned subsidiary of CCOOP Group Co., Ltd. (“CCOOP Group”), a company incorporated in the PRC, holds 204,558,317 ordinary shares in aggregate, representing 70.42% of the entire issued share capital of the Company. In the opinion of the directors of the Company, the holding company of the Company is CCOOP Group, the shares of which are listed on the Shenzhen Stock Exchange.

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 (the “functional currency”). The consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the principal subsidiaries of the Group where the primary economic environment is in the PRC. Other than the subsidiaries established in the PRC and Macau which functional currencies are RMB and Macau Pataca (“MOP”) respectively, the functional currency of the Company and other subsidiaries is Hong Kong dollars (“HK\$”). All values are rounded to the nearest thousand (“RMB’000”) unless otherwise stated.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) which are effective for the Group’s financial year beginning 1 January 2021:

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

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

The application of the amendments to IFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) – CONTINUED

New and amendments to IFRSs issued but not yet effective

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

IFRS 17	Insurance Contracts and related Amendments ³
Amendments to IFRS 3	Reference to Conceptual Framework ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to IAS 8	Definition of Accounting Estimates ³
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to IAS 16	Property, plant and Equipment: Proceeds before Intended Use ²
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendment to IFRSs	Annual Improvements to IFRSs 2018–2020 cycle ²
Initial Application of IFRS 17 and IFRS 9	Comparative Information (Amendment to IFRS 17) ³

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.

The directors of the Company anticipate that, except as described below, the application of other new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

Amendments to IFRS 3 Reference to the Conceptual Framework

The amendments update a reference to IFRS 3 so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the “Conceptual Framework”) instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010). They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC – Int 21 Levies, the acquirer applies IFRIC – Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) – CONTINUED

New and amendments to IFRSs issued but not yet effective – continued

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Based on the Group’s outstanding liabilities as at 31 December 2021, the application of the amendments will not result in change in the classification of the Group’s liabilities.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

Guidance and examples were provided to explain and demonstrate the application of the “four-step materiality process” described in IFRS Practice Statement 2. The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) – CONTINUED

New and amendments to IFRSs issued but not yet effective – continued

Amendments to IAS 8 Definition of Accounting Estimates

The amendments to IAS 8 introduce the definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period, with earlier application permitted.

The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group currently applies IAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group is still in the process of assessing the full impact of the application of the amendments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less identified impairment loss.

Property, plant and equipment

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

Ownership interests in leasehold land and buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties also include leased properties recognised by the Group as right-of-use assets.

Owned investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

If an item of property, plant and equipment becomes an investment property when there is a change in use, as supported by observable evidence, the carrying amount of that item at the date of transfer is the deemed cost for subsequent accounting for that property as an item of investment property.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventories

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Financial assets at amortised cost (debt instruments)

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

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

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

Amortised cost and effective interest method

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

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses (“ECL”), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

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

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in “Other operating income” (note 6).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) are measured at FVTPL. Specifically, debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the ‘other operating income’ line item. Fair value is determined in the manner described in note 37.

Impairment of financial assets

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

The Group always recognises lifetime ECL for trade receivables, lease receivables and trade-related amounts due from related companies. The ECL on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic; or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Definition of default

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

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 *Leases*.

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

Financial liabilities subsequently measured at amortised cost

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

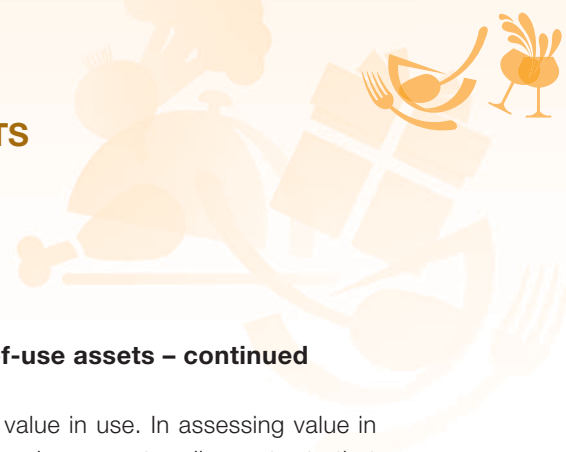
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities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

Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment losses on property, plant and equipment and right-of-use assets – continued

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Revenue recognition

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

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

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition – continued

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

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

Contract liabilities

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

For a single contract with the customer, either a net contract asset or a net contract liability is presented.

The Group recognised revenue from the following major sources:

- merchandise sales from retail outlet operation and wholesale distribution
- commission from concessionaire sales
- promotion income from suppliers

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition – continued

Merchandise sales from retail outlet operation and wholesale distribution

For the general retail sales under retail outlet operation, revenue is recognised when control passes to the retail customers, being the point the retail customers purchase the goods at the retail outlets. Payment of transaction price is due immediately at the point the retail customers purchase the goods. The payment is usually settled in cash, using credit cards or by means of electronic payment.

Revenue from bulk sales of goods to retail customers under retail outlet operation is recognised when control of products has transferred, being when the products are delivered and there is no unfulfilled obligation that could affect them to accept the products. The retail customers make payments upon products delivery or according to the agreed credit terms normally for a period of 0-180 days from the invoice date. Collected payments before product delivery is recognised as contract liabilities.

The Group's retail outlet operation operates a customer loyalty incentive program organised by an independent third party which allows customers to accumulate points when they purchase products. The points can be redeemed for cash rewards or free products, subject to a minimum number of points obtained, provided by the Group or another entities who join the program. The customer loyalty incentive programme gives rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the customer loyalty incentive programme based on relative standalone selling price. Such consideration is not recognised as revenue at the time of initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Revenue from sales of goods to wholesalers or franchisees is recognised when control of the products has transferred, being when the products are delivered to the wholesalers or the franchisees and there is no unfulfilled obligation that could affect them to accept the products. The wholesalers or franchisees make payments upon products delivery or according to the agreed credit terms normally for a period of 0-180 days from the invoice date. Collected payments before product delivery is recognised as contract liabilities.

Commission income from concessionaire sales

The Group grants counter suppliers the right to operate business within retail outlets under a concession. The Group recognises commission income from concessionaire sales upon sales of goods or provision of services by counter suppliers. The Group receives the gross proceeds of concessionaire sales from retail customers on behalf of the counter suppliers and subsequently transfers the proceeds to the counter suppliers after deducting the commission income, out of pocket expenses, expenses in relation to the promotional activities and other administrative expenses according to the terms of the relevant concessionaire agreements.

Promotion income from suppliers

The Group arranges promotion of products with respective suppliers and promotion income from suppliers are attributable to these promotional events and activities. Promotion income from suppliers is recognised when promotion services are rendered according to the terms of promotion service agreements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leasing

Definition of a lease

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

The Group as lessee

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

Lease liabilities

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

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leasing – continued

The Group as lessee – continued

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within “investment property”.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in “Selling and distribution costs” in the consolidated statement of profit or loss and other comprehensive income.

Lease modification

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leasing – continued

The Group as lessee – continued

COVID-19-Related Rent Concessions

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

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

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

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties and leased retail areas. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. If the head lease is a short-term lease to which the Group applies the exemption described above, the sublease shall be classified as an operating lease.

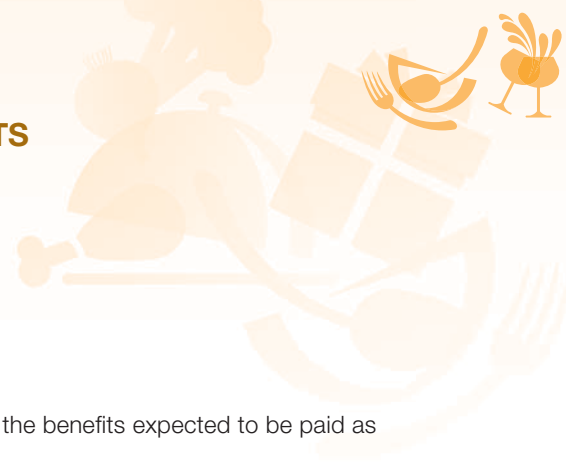
Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services.

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

Retirement benefits costs

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group’s operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Government grants

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

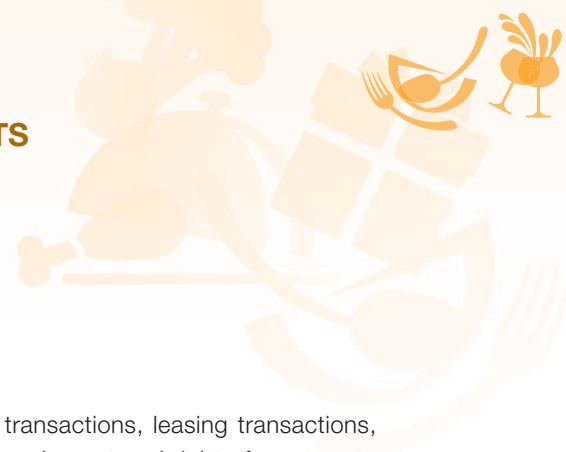
For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Current and deferred tax are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair value measurement

When measuring fair value except for the Group's share-based payment transactions, leasing transactions, net realisable value of inventories and value in use of property, plant and equipment and right-of-use assets for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment assessment on retail outlet operation cash generating units (“Retail outlet CGUs”)

The Group's Retail outlet CGUs consist of certain property, plant and equipment and right-of-use assets. In determining whether there is any impairment loss of the Retail outlet CGUs, management estimated the recoverable amounts of the Retail outlet CGUs based on the value in use calculation. The value in use calculation is prepared by independent professional valuers based on the management's assumptions and estimates taking into account the existing business plan and other strategic business development. These calculations require the use of estimates such as the future revenue, expenses and discount rates.

As at 31 December 2021, the carrying values of related property, plant and equipment and related right-of-use assets were RMB35,474,000 (2020: RMB39,256,000) and RMB109,138,000 (2020: RMB122,539,000) respectively. Impairment loss of RMB12,000 was recognised against property, plant and equipment in relation to retail outlet operation CGU in Macau during the year ended 31 December 2021 (2020: impairment loss of RMB559,000 was recognised against property, plant and equipment in relation to retail outlet operation CGU in Macau).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Impairment of trade receivables

The impairment provision for trade receivables is based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical credit loss experience, existing market conditions and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to profit or loss. As at 31 December 2021, the carrying amount of trade receivables was RMB24,259,000 (2020: RMB35,119,000). During the year ended 31 December 2021, impairment loss of RMB206,000 was reversed (2020: impairment loss of RMB1,501,000 was recognised).

Allowance for inventories

The Group makes the allowance for inventories based on assessments of the net realisable value and ageing analysis of inventories and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2021, the carrying amount of inventories was RMB107,783,000 (2020: RMB143,926,000). During the year ended 31 December 2021, obsolete inventories written off of RMB2,074,000 (2020: RMB953,000) was recognised.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the useful lives and residual values of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

As at 31 December 2021, there were no changes on the estimated useful lives and residual values after performing annual assessment and the related depreciation of the property, plant and equipment with carrying values of RMB36,516,000 (2020: RMB39,946,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

5. OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker (“CODM”), being the chief executive of the Company, that are used to make strategic decisions. The Group has two reportable segments. The segments are managed separately as each business offers different services and requires different business strategies. The following summary describes the operations in each of the Group’s reportable segments:

- Retail outlet operation (sales of fresh food, non-staple food and household products); and
- Wholesale distribution (sales of fast consumable products and non-staple food)

The management assesses the performance of the operating segments based on the measure of segment results which represents the net of revenue, cost of inventories sold, other operating income, selling and distribution costs, administrative expenses and finance costs directly attributable to each operating segment without allocation of certain other operating income and central administrative costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Segment revenue and results

For the year ended 31 December 2021

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Inter-segment elimination RMB'000	Total RMB'000
REVENUE				
From external customers	607,645	133,990	–	741,635
From inter-segment	52,797	12,260	(65,057)	–
Reportable segment revenue	660,442	146,250	(65,057)	741,635
Reportable segment loss	(29,173)	(5,129)		(34,302)
Other corporate loss				(52)
Other corporate expenses				(3,315)
Loss before tax				(37,669)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



5. OPERATING SEGMENT INFORMATION – CONTINUED

Segment revenue and results – continued

For the year ended 31 December 2020

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Inter-segment elimination RMB'000	Total RMB'000
REVENUE				
From external customers	691,762	196,987	–	888,749
From inter-segment	45,006	21,026	(66,032)	–
Reportable segment revenue	<u>736,768</u>	<u>218,013</u>	<u>(66,032)</u>	<u>888,749</u>
Reportable segment loss	<u>(4,925)</u>	<u>(639)</u>		(5,564)
Other corporate income				569
Other corporate expenses				<u>(11,250)</u>
Loss before tax				<u><u>(16,245)</u></u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment loss represents the loss from each segment without allocation of central administration costs, directors' salaries and finance costs. This is the measure reported to the CODM, being the chief executive of the Company for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

5. OPERATING SEGMENT INFORMATION – CONTINUED

Segment assets and liabilities

	2021 RMB'000	2020 RMB'000
Retail outlet operation	402,222	496,968
Wholesale distribution	69,707	89,098
	<hr/>	<hr/>
Total segment assets	471,929	586,066
Other corporate assets (<i>Note</i>)	9,656	14,216
	<hr/>	<hr/>
Group's assets	481,585	600,282
	<hr/>	<hr/>
Retail outlet operation	275,586	349,569
Wholesale distribution	4,057	8,293
	<hr/>	<hr/>
Total segment liabilities	279,643	357,862
Other corporate liabilities (<i>Note</i>)	1,094	2,951
	<hr/>	<hr/>
Group's liabilities	280,737	360,813
	<hr/>	<hr/>

Note:

For the purpose of monitoring segment performances and allocating resources between segments:

- All assets are allocated to reportable and operating segments, other than certain property, plant and equipment certain right-of-use assets, certain deposit paid, prepayment and other receivables and certain cash and cash equivalents.
- All liabilities are allocated to reportable and operating segments, other than other payables relating to central administrative costs and certain lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



5. OPERATING SEGMENT INFORMATION – CONTINUED

Other segment information

For the year ended 31 December 2021

Amounts included in the measure of segment profit or loss or segment assets:

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Unallocated RMB'000	Total RMB'000
Addition to property, plant and equipment	9,215	29	25	9,269
Addition to right-of-use assets	32,642	1,080	848	34,570
Depreciation of property, plant and equipment	11,584	283	530	12,397
Depreciation of investment properties	327	–	–	327
Depreciation of right-of-use assets	38,031	2,059	212	40,302
Obsolete inventories written off	1,980	94	–	2,074
Finance costs	10,402	171	17	10,590
Gain on disposal of property, plant and equipment	(681)	–	–	(681)
Interest income on bank deposits	(1,615)	(56)	(18)	(1,689)
Interest income from financial assets at FVTPL	(289)	–	–	(289)
Impairment loss recognised in respect of property, plant and equipment	12	–	–	12
Impairment loss (reversed) recognised in respect of trade receivables	(528)	322	–	(206)

For the year ended 31 December 2020

Amounts included in the measure of segment profit or loss or segment assets:

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Unallocated RMB'000	Total RMB'000
Addition to property, plant and equipment	7,701	137	–	7,838
Addition to right-of-use assets	68,563	–	–	68,563
Depreciation of property, plant and equipment	11,278	328	10	11,616
Depreciation of investment properties	327	–	–	327
Depreciation of right-of-use assets	36,268	1,845	–	38,113
Obsolete inventories written off	863	90	–	953
Finance costs	11,353	130	–	11,483
Gain on disposal of property, plant and equipment	(44)	–	–	(44)
Interest income on bank deposits	(843)	(14)	(244)	(1,101)
Interest income from financial assets at FVTPL	(895)	–	–	(895)
Impairment loss recognised in respect of property, plant and equipment	559	–	–	559
Impairment loss recognised in respect of trade receivables	1,410	91	–	1,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

5. OPERATING SEGMENT INFORMATION – CONTINUED

Geographic Information

The Group's revenue from external customers and its non-current assets are all divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
The PRC (place of domicile)	723,524	868,546	156,602	174,122
Macau	18,111	20,203	–	–
Hong Kong	–	–	21	2
	<u>741,635</u>	<u>888,749</u>	<u>156,623</u>	<u>174,124</u>

Deposits paid are excluded from non-current assets under geographical information.

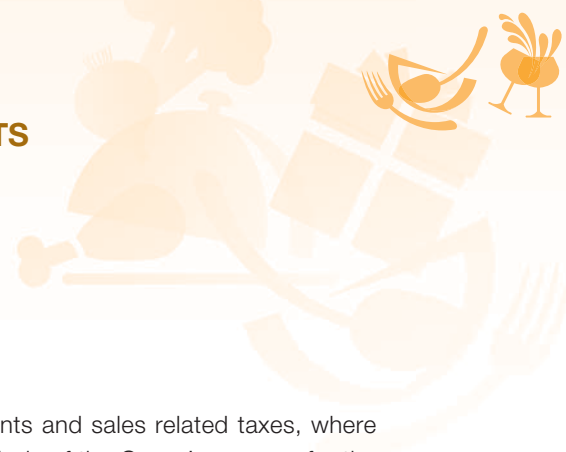
The PRC is the country of domicile of the Group. The country of domicile is determined by referring to the country which the Group regards as its home country, has the majority of operations and centre of management.

The geographical location of customers is based on the location at which the goods were sold and the services were rendered. The geographical location of the non-current assets is based on the physical location of the asset.

The Group's revenue from external customers is derived from the PRC and Macau. No single customer of the Group contributed 10% or more to the Group's revenue for the years ended 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



6. REVENUE AND OTHER OPERATING INCOME

(a) Revenue

Revenue represents revenue arising on sale of goods, net of discounts and sales related taxes, where applicable, rental income and the value of services rendered. An analysis of the Group's revenue for the year is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
– Sales of goods		
General retail sales under retail outlet operation (<i>Note</i>)	573,590	656,438
Bulk sales under retail outlet operation	11,903	13,821
General wholesales under wholesale distribution	133,990	196,987
– Services rendered		
Commission from concessionaire sales under retail outlet operation	2,511	1,165
	<u>721,994</u>	<u>868,411</u>
Revenue from other sources		
Rental income from subleasing certain retail areas under retail outlet operation		
– Lease payments that are fixed	19,641	20,338
	<u>741,635</u>	<u>888,749</u>

Note: General retail sales included the compensation for reduced selling prices of approximately RMB1,471,000 and RMB1,400,000 from the local government in the PRC which was classified as revenue during the years ended 31 December 2021 and 2020 respectively. In the opinion of the directors of the Company, it was directly related to the sales of daily necessities food and was related to the ordinary and usual course of the business of the Group. Accordingly, it was classified as revenue of the Group.

Disaggregation of revenue from contracts with customers by timing of recognition

	2021 RMB'000	2020 RMB'000
Timing of revenue recognition		
At a point of time	<u>721,994</u>	<u>868,411</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

6. REVENUE AND OTHER OPERATING INCOME – CONTINUED

(a) Revenue – continued

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

As at 31 December 2021 and 2020, all of the Group's remaining performance obligations for contracts with customers are for periods of one year or less. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) as at the end of both reporting periods.

(b) Other operating income

	2021 RMB'000	2020 RMB'000
Gain on disposal of property, plant and equipment	681	44
Government grants (<i>Note i</i>)	2,443	3,591
Interest income on bank deposits	1,689	1,101
Interest income from financial assets at FVTPL	289	895
Net exchange (losses) gains	(63)	91
Net rental income from investment properties (<i>Note ii</i>)		
lease payments that are fixed	2,042	2,233
Promotion income from suppliers	19,295	24,303
Gain on lease termination (<i>Note iii</i>)	424	286
Others	3,864	2,419
	<u>30,664</u>	<u>34,963</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



6. REVENUE AND OTHER OPERATING INCOME – CONTINUED

(b) Other operating income – continued

Notes:

- (i) Various local government grants were granted to the Group in respect of certain research projects during the years ended 31 December 2021 and 2020. During the year ended 31 December 2020, the Group recognised government grants of RMB519,000 in respect of COVID-19-related grants, of which RMB235,000 related to Employment Support Scheme provided by the Government of Hong Kong Special Administrative Region under the Anti-Epidemic Fund; RMB266,000 related to 百億抗疫援助基金 provided by the Government of Macao Special Administrative Region and RMB18,000 related to delayed resumption of work provided by the local government of the PRC. There were no unfulfilled conditions or contingencies attached to these government grants.

- (ii) An analysis of the Group's net rental income is as follows:

	2021 RMB'000	2020 RMB'000
Gross rental income	2,134	2,333
Less: Outgoing incurred for investment properties that generated rental income during the year	(92)	(100)
Net rental income	<u>2,042</u>	<u>2,233</u>

- (iii) During the year ended 31 December 2021, gain on early termination of a lease represented the net difference of approximately RMB424,000 comprising an approximately RMB8,012,000 decrease in right-of-use assets and an approximately RMB8,436,000 decrease in lease liabilities.

During the year ended 31 December 2020, gain on early termination of a lease represented the net difference of approximately RMB286,000 comprising an approximately RMB6,648,000 decrease in right-of-use assets and an approximately RMB6,934,000 decrease in lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

7. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on:		
Bank borrowings	5,006	5,805
Lease liabilities	5,584	5,678
	<u>10,590</u>	<u>11,483</u>

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging (crediting):

	2021 RMB'000	2020 RMB'000
Depreciation of investment properties	327	327
Depreciation of property, plant and equipment	12,397	11,616
Depreciation of right-of-use assets	40,302	38,113
Employee benefits expenses (excluding directors' remuneration (Note 9)):		
– Salaries and other benefits	61,446	60,173
– Pension scheme contributions	7,606	4,937
– Contractual compensation for loss of office paid	–	1,500
– Other benefits	597	758
	<u>69,649</u>	<u>67,368</u>
Auditor's remuneration	1,080	1,200
COVID-19-related rent concessions (Note a)	(2,147)	(274)
Obsolete inventories written off (included in cost of inventories sold)	2,074	953

Note:

- (a) Due to the outbreak of COVID-19, the Group has received rent concessions from lessors including rent forgiveness. During the year ended 31 December 2020, the Group had early adopted Amendment to IFRS 16, COVID-19-Related Rent Concessions and applied the practical expedient not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic was a lease modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

(a) Director's emoluments

The emoluments paid or payable to each of the 6 (2020: 10) directors and the chief executive officer ("CEO") were as follows:

For year ended 31 December 2021

	Mr. Han Wei RMB'000	Mr. Du Xiaoping (Note i) RMB'000	Total RMB'000
A) EXECUTIVE DIRECTORS:			
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries undertakings			
Fees	-	-	-
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries undertakings			
Other emoluments:			
Salaries and allowances	-	-	-
Pension scheme contributions	-	-	-
	<hr/>	<hr/>	<hr/>
	-	-	-
	<hr/>	<hr/>	<hr/>
Compensation for termination of service of directors:			
Contractual payments for:			
Loss of any other office in connection with the management of the affairs of the Company and its subsidiaries by the Company	-	-	-
	<hr/>	<hr/>	<hr/>
Sub-total emoluments	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2021 – continued

B) NON-EXECUTIVE DIRECTORS

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries undertakings

Fees

Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries undertakings

Other emoluments:

Salaries and allowances

Pension scheme contributions

Sub-total emoluments

Mr. Wang
Fu Lin
RMB'000

–

–

–

–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2021 – continued

	Mr. Cheng Hok Kai Frederick <i>(Note i)</i> RMB'000	Mr. Zou Pingxue <i>(Note ii)</i> RMB'000	Mr. Wang Yilin <i>(Note iii)</i> RMB'000	Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:				
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries undertakings				
Fees	200	149	149	498
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries undertakings				
Other emoluments:				
Salaries and allowances	-	-	-	-
Pension scheme contributions	-	-	-	-
Sub-total emoluments	200	149	149	498
Total emoluments				498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2020

	Mr. Han Wei RMB'000	Mr. Du Xiaoping (Note i) RMB'000	Mr. Sun Kin Ho Steven (Note ii) RMB'000	Total RMB'000
A) EXECUTIVE DIRECTORS:				
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries undertakings				
Fees	-	-	-	-
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries undertakings				
Other emoluments:				
Salaries and allowances	-	-	1,046	1,046
Pension scheme contributions	-	-	14	14
	<u>-</u>	<u>-</u>	<u>1,060</u>	<u>1,060</u>
Compensation for termination of service of directors:				
Contractual payments for:				
Loss of any other office in connection with the management of the affairs of the Company and its subsidiaries by the Company	-	-	921	921
	<u>-</u>	<u>-</u>	<u>921</u>	<u>921</u>
Sub-total emoluments	<u>-</u>	<u>-</u>	<u>1,981</u>	<u>1,981</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2020 – continued

Mr. Wang
Fu Lin
RMB'000

B) NON-EXECUTIVE DIRECTORS:

Emoluments paid or receivable in respect of a person's services as a director,
whether of the Company and its subsidiaries undertakings

Fees –

Emoluments paid or receivable in respect of director's other services in
connection with the management of the affairs of the Company and its
subsidiaries undertakings

Other emoluments:

Salaries and allowances –

Pension scheme contributions –

Sub-total emoluments

–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2020 – continued

	Mr. Cheng Hok Kai Frederick (Note i) RMB'000	Mr. Zou Pingxue (Note iii) RMB'000	Mr. Wang Yilin (Note iii) RMB'000	Mr. Chen Cheng Lien (Note ii) RMB'000	Mr. Chong Kin Ho (Note ii) RMB'000	Mr. Tung Chia Hung Michael (Note ii) RMB'000	Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:							
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries undertakings							
Fees	90	63	63	91	122	91	520
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries undertakings							
Other emoluments:							
Salaries and allowances	-	-	-	-	-	-	-
Pension scheme contributions	-	-	-	-	-	-	-
Sub-total emoluments	<u>90</u>	<u>63</u>	<u>63</u>	<u>91</u>	<u>122</u>	<u>91</u>	<u>520</u>
Total emoluments							<u><u>2,501</u></u>

Notes:

- (i) Appointed on 27 July 2020
- (ii) Resigned on 27 July 2020
- (iii) Appointed on 5 August 2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

Mr. Sun Kin Ho Steven acted as CEO of the Company from 27 September 2019 to 27 July 2020 and his emoluments disclosed above included the services rendered by him as the CEO.

Mr. Han Wei acts as CEO of the Company from 27 July 2020 onward and his emoluments disclosed above included the services rendered by him as the CEO.

On 6 January 2022, Mr. Du Xiaoping and Mr. Wang FuLin resigned as executive director and non-executive director respectively.

On 25 February 2022, Mr. Shang Duoxu and Ms. Wang Hui were appointed as executive director and non-executive director respectively.

No directors and the CEO waived or agreed to waive any emoluments during both years.

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, nil (2020: one) was a director representing the former CEO of the Company who emolument is included in the note 9(a). The emoluments of the remaining five (2020: four) individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	1,715	2,739
Pension scheme contributions	14	34
Contractual compensation for loss of office paid	–	1,500
	<u>1,729</u>	<u>4,273</u>

Their emoluments were within the following bands:

	2021 No. of individuals	2020 No. of individuals
Nil to RMB830,000 (2020: Nil to RMB869,000) (approximately Nil – HK\$1,000,000)	5	2
RMB830,000 to RMB1,244,000 (2020: RMB869,001 to RMB1,303,000) (approximately HK\$1,000,001 – HK\$1,500,000)	–	2

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

10. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

	2021 RMB'000	2020 RMB'000
Current – Macau		
Under-provision in prior year	–	16
Current – the PRC		
Under-provision in prior year	564	12
Charge for the year	24	194
	<u>588</u>	<u>222</u>

The Group is not subject to any income tax under the jurisdiction of the Cayman Islands and the British Virgin Islands (the “BVI”) for the years ended 31 December 2021 and 2020.

No provision for Hong Kong Profits Tax has been provided as the Group has no estimated assessable profits arising in Hong Kong for the years ended 31 December 2021 and 2020.

The Group’s subsidiaries in the PRC are subject to Enterprise Income Tax at the rate of 25% based on the estimated assessable profits for the years ended 31 December 2021 and 2020.

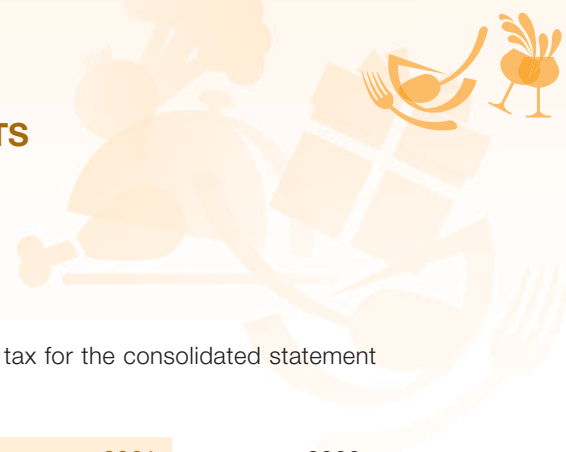
From 1 January 2019 to 31 December 2021, under relevant PRC Enterprise Income Tax Law, for PRC enterprises that qualifies for small enterprises, annual taxable income below RMB3 million and thin-profit enterprises with an annual taxable income of RMB1 million or less are applicable to the effective tax rate of 5%. Where their annual taxable income exceeds RMB1 million but does not exceed RMB3 million, the RMB1 million portion will be subject to an effective tax rate of 5%, whereas the excess portion will be subject to the effective tax rate of 10%.

The Law of the PRC on Enterprise Income Tax allows enterprises to apply for the certificates of “High and New Technology Enterprise” (“HNTE”) which entitles the qualified companies to a preferential income tax rate of 15%. 廣東省順客隆商業連鎖有限公司, a PRC subsidiary of the Group, has been qualified as a HNTE in 2017 and its income tax rate is 15% for the years ended 31 December 2021 and 2020.

The Group’s subsidiaries in Macau are subject to Complementary Tax at a rate of 12% based on estimated assessable profits for the years ended 31 December 2021 and 2020. During the year ended 31 December 2021 and 2020, no Macau Complementary Income Tax has been provided as there were no assessable profits generated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



10. INCOME TAX EXPENSE – CONTINUED

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

	2021 RMB'000	2020 RMB'000
Loss before tax	<u>(37,669)</u>	<u>(16,245)</u>
Tax on loss before tax, calculated at the rates applicable to loss in the tax jurisdictions concerned	(8,208)	(2,126)
Tax effect of expenses not deductible for tax purposes	354	418
Utilisation of tax losses previously not recognised	(129)	(72)
Tax effect of tax losses not recognised	7,203	2,242
Utilisation of deductible temporary differences not recognised	(50)	–
Tax effect of deductible temporary differences not recognised	–	442
Under-provision in prior years	564	28
Income tax on concessionary rate	<u>854</u>	<u>(710)</u>
Income tax expense	<u>588</u>	<u>222</u>

As at 31 December 2021, no deferred tax liabilities have been recognised in respect of the temporary differences of approximately RMB56,654,000 (2020: RMB88,730,000) associated with undistributed earnings of certain subsidiaries established and operating in the PRC because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2021, the Group has unused estimated tax losses of approximately RMB39,621,000 (2020: RMB13,026,000), RMB16,276,000 (2020: RMB15,077,000) and RMB9,423,000 (2020: RMB7,524,000) for certain subsidiaries in the PRC, Hong Kong and Macau respectively. The tax losses incurred by the subsidiaries incorporated in the PRC (except for HNTE) and Macau will expire in five years and three years respectively from the year in which the loss originated, while the losses incurred by the subsidiaries in Hong Kong will not expire under current tax legislation in Hong Kong. With effective from 1 January 2018, the losses incurred by HNTE will expire in ten years from the year in which the loss originated. No deferred tax asset had been recognised as at 31 December 2021 and 2020 in respect of the estimated tax losses due to the unpredictability of future profit streams.

As at 31 December 2021, the Group has deductible temporary differences of approximately RMB2,507,000 (2020: RMB2,701,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

11. LOSS PER SHARE

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

	2021 RMB'000	2020 RMB'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>(38,045)</u>	<u>(16,501)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>290,457,000</u>	<u>290,457,000</u>

The diluted loss per share are the same as basic loss per share as there are no potential dilutive ordinary shares outstanding during both years or at the end of both reporting periods.

12. DIVIDEND

The board of directors does not recommend the payment of final dividend for the years ended 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
Cost						
At 1 January 2020	19,499	36,131	7,271	7,956	29,856	100,713
Exchange realignment	-	(25)	(21)	(5)	(38)	(89)
Additions	-	4,309	326	130	3,073	7,838
Disposals	-	-	(323)	(98)	(589)	(1,010)
At 31 December 2020 and 1 January 2021	19,499	40,415	7,253	7,983	32,302	107,452
Exchange realignment	-	(9)	(9)	(1)	(12)	(31)
Additions	-	5,512	470	178	3,109	9,269
Disposals	-	-	(813)	(597)	(1,724)	(3,134)
Write-off	-	(694)	(41)	(73)	(334)	(1,142)
At 31 December 2021	19,499	45,224	6,860	7,490	33,341	112,414
Accumulated depreciation and impairment						
At 1 January 2020	4,644	19,492	5,623	6,060	20,388	56,207
Exchange realignment	-	(25)	(21)	(5)	(37)	(88)
Depreciation provided for the year	509	6,573	628	587	3,319	11,616
Eliminated on disposals	-	-	(301)	(53)	(434)	(788)
Impairment loss recognised for the year	-	546	2	-	11	559
At 31 December 2020 and 1 January 2021	5,153	26,586	5,931	6,589	23,247	67,506
Exchange realignment	-	(9)	(9)	(1)	(12)	(31)
Depreciation provided for the year	509	7,549	463	453	3,423	12,397
Eliminated on disposals	-	-	(767)	(510)	(1,567)	(2,844)
Eliminated on write-off	-	(694)	(41)	(73)	(334)	(1,142)
Impairment loss recognised for the year	-	-	-	-	12	12
At 31 December 2021	5,662	33,432	5,577	6,458	24,769	75,898
Carrying values						
At 31 December 2021	13,837	11,792	1,283	1,032	8,572	36,516
At 31 December 2020	14,346	13,829	1,322	1,394	9,055	39,946



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

13. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

The Group's buildings are erected on land located in the PRC.

The above items of property, plant and equipment are depreciated using the straight-line basis, after taking into account of their estimated residual values, at the following rates per annum:

Buildings	5% or over the lease terms of the relevant land, if shorter
Leasehold improvements	5% or over the lease terms of the relevant properties, if shorter
Plant and machinery	11% – 32%
Motor vehicles	10% – 25%
Furniture, fixtures and equipment	8% – 32%

As at 31 December 2021 and 2020, certain buildings with carrying values of approximately RMB11,852,000 and RMB11,388,000 respectively have been pledged to the bank for banking facilities granted to the Group (see note 25).

All retail outlets in Macau were making loss during the years ended 31 December 2021 and 2020 due to the impact of temporary suspension of retail outlets operation in Macau during the outbreak of the COVID-19. The management carried out an impairment assessment for the retail outlet operation CGU in Macau. The estimate of the recoverable amount was based on value-in-use calculation using the discounted cash projection at pre-tax discount rate of 7.99% (2020: 7.95%) per annum based on the financial forecast approved by management covering a period of the remaining lease terms. Key assumptions for the value-in-use calculation include future revenue, budgeted gross margin and operating costs, which were determined based on the past performance, the Group's business plan and management expectations for the market development.

As a result, impairment loss of property, plant and equipment of RMB12,000 (2020: RMB559,000) was recognised during the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



14. LEASES

(i) Right-of-use assets

	Other properties leased for own use RMB'000	Ownership interests on leasehold land RMB'000	Total RMB'000
Balance as at 1 January 2020	72,868	24,620	97,488
Additions	68,563	–	68,563
Depreciation	(37,241)	(872)	(38,113)
Adjustment for lease modification	3,210	–	3,210
Termination of leases	(6,648)	–	(6,648)
Balance as at 31 December 2020 and 1 January 2021	100,752	23,748	124,500
Additions	34,570	–	34,570
Depreciation	(39,430)	(872)	(40,302)
Termination of leases	(8,012)	–	(8,012)
Balance as at 31 December 2021	87,880	22,876	110,756

At 31 December 2021, right-of-use assets of RMB22,876,000 (2020: RMB23,748,000) represents land use rights locating in the PRC.

As at 31 December 2021, certain ownership interests in leasehold land with carrying values of approximately RMB20,729,000 (2020: RMB19,008,000) have been pledged to the bank for banking facilities granted to the Group (see note 25).

The Group has lease arrangements for retail outlets, warehouses and office premises. The lease terms are generally ranged from thirteen months to nineteen years at fixed rentals. The Group has also entered into short-term leases arrangements in respect of retail outlets, warehouses and office premises. During the years ended 31 December 2021 and 2020, no expenses related to variable lease payments of the lease were recognised into profit or loss.

Additions to the right-of-use assets for the year ended 31 December 2021 amounted to RMB34,570,000 (2020: RMB68,563,000), due to new leases of retail outlets, warehouses and office premises and renewal of existing leases.

As at 31 December 2021, the Group closed certain retail outlets and early terminated the related leases amounted to RMB8,012,000 (2020: RMB6,648,000).

During the years ended 31 December 2021 and 2020, the Group has subleased part of the rented retail outlets, details are set out in note 31. The Group has classified the subleases as operating leases. During the years ended 31 December 2021, the Group recognised rental income from subleasing right-of-use assets of RMB19,641,000 (2020: RMB20,338,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

14. LEASES – CONTINUED

(ii) Lease liabilities

	RMB'000
Balance as at 1 January 2020	75,147
Additions	68,563
Interest expenses on lease liabilities	5,678
Payment for lease liabilities	(37,045)
Adjustment for lease modification	3,210
Termination of leases	(6,934)
Rent concessions related to COVID-19	(274)
	<hr/>
Balance as at 31 December 2020 and 1 January 2021	108,345
Additions	34,570
Interest expenses on lease liabilities	5,584
Payment for lease liabilities	(43,712)
Termination of leases	(8,436)
Rent concessions related to COVID-19	(2,147)
	<hr/>
Balance as at 31 December 2021	<u><u>94,204</u></u>
	2021
	RMB'000
	2020
	RMB'000
Amounts payable under lease liabilities	
Within one year	38,169
After one year but within two years	21,452
After two years but within five years	31,971
After five years	2,612
	<hr/>
	94,204
Less: amount due for settlement within 12 months (shown under current liabilities)	(38,169)
	<hr/>
Amount due for settlement after 12 months	<u><u>56,035</u></u>
	<hr/>
	108,345
	(31,535)
	<hr/>
	76,810
	<hr/>

During the year ended 31 December 2021, the Group entered into new leases of retail outlets, warehouses and office premises and renewed existing leases of RMB34,570,000 (2020: RMB68,563,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



14. LEASES – CONTINUED

(ii) Lease liabilities – continued

Rent concessions

During the year ended 31 December 2021 and 2020, the Group received rent concessions in the form of a discount on fixed payments and rent forgiveness during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19.

These rent concessions occurred as a direct consequence of COVID-19 pandemic, which met of all of the conditions in IFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. Accordingly, during the year ended 31 December 2021, rent concessions totaling RMB2,147,000 (2020:RMB274,000) have been accounted as negative variable lease payments and recognised in the profit or loss, with a corresponding adjustment to the lease liabilities.

(iii) Amounts recognised in profit or loss

	2021 RMB'000	2020 RMB'000
Depreciation of right-of-use assets by class of underlying asset:		
Other properties leased for own use	39,430	37,241
Ownership interests in leasehold land	872	872
	<hr/>	<hr/>
	40,302	38,113
Interest expenses on lease liabilities	5,584	5,678
Expenses relating to short-term leases	4,278	6,854
Gain on lease termination (<i>note 6(b)(iii)</i>)	424	286
Rent concessions related to COVID-19 (<i>note</i>)	(2,147)	(274)
	<hr/> <hr/>	<hr/> <hr/>

Note:

As disclosed in notes 2 and 14(ii), the Group had early adopted the Amendment to IFRS 16, COVID-19-Related Rent Concessions, and applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the year ended 31 December 2020.

(iv) Others

During the year ended 31 December 2021, the total cash outflow for leases amount to RMB47,990,000 (2020: RMB43,899,000).

Restrictions or covenants on leases

As at 31 December 2021, lease liabilities of RMB94,204,000 are recognised with related right-of-use assets of RMB110,756,000 (2020: lease liabilities of RMB108,345,000 and related right-of-use assets of RMB124,500,000). The lease agreements do not impose any covenants other than security interests in the leased assets that are held by the lessors. Leased assets may not be used as security for borrowing purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

15. INVESTMENT PROPERTIES

	2021 RMB'000	2020 RMB'000
Balance as at 1 January	9,678	10,005
Depreciation	<u>(327)</u>	<u>(327)</u>
Balance as at 31 December	<u>9,351</u>	<u>9,678</u>
Balance as at 31 December		
Cost	11,695	11,695
Accumulated depreciation	<u>(2,344)</u>	<u>(2,017)</u>
Carrying values	<u>9,351</u>	<u>9,678</u>

The above investment properties are depreciated on a straight-line basis at the following rates per annum:

Buildings Over the shorter of term of the lease and 25 years

As at 31 December 2021 and 2020, certain investment properties with carrying values of approximately RMB9,351,000 and RMB9,424,000 respectively have been pledged to the bank for banking facilities granted to the Group (see note 25).

The fair values of the Group's investment properties at 31 December 2021 and 2020 were approximately RMB39,996,000 and RMB31,699,000 respectively, were valued by 北京中企華資產評估有限責任公司, an independent valuer not connected to the Group. Details of the valuation techniques and assumptions set out below. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Fair value

The following table gives information about how the fair value of investment properties as at 31 December 2021 and 2020 was determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements were categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements was observable.

As at 31 December 2021

Nature : Investment properties in the PRC
 Fair value hierarchy : Level 3
 Valuation technique(s) and key input(s) : Income approach with key inputs which are market unit rent and market yield

As at 31 December 2020

Nature : Investment properties in the PRC
 Fair value hierarchy : Level 3
 Valuation technique(s) and key input(s) : Income approach with key inputs which are market unit rent and market yield

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

16. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Non-current asset		
Rental deposits paid (<i>Note b</i>)	<u>14,310</u>	<u>12,320</u>
Current assets		
Prepayments	117	55
Advances to suppliers	16,743	22,255
Deposits paid (<i>Note b</i>)	329	545
<i>Input value added tax receivables (Note a)</i>	42,386	46,515
Interest receivables (<i>Note b</i>)	470	360
Other receivables (<i>Note b</i>)	<u>14,147</u>	<u>17,078</u>
	<u>74,192</u>	<u>86,808</u>

Notes:

- (a) Input value added tax arose when the Group purchased products from suppliers and the input value added tax can be deducted from output value added tax on sales.
- (b) For the rental deposits paid, other deposits paid, interest receivables and other receivables, the directors of the Company considered the credit risk of the amounts has not been increased significantly and thus the allowance for impairment recognised during the years was limited to 12-month ECL. As at 31 December 2021 and 2020, the identified impairment loss was immaterial.

17. INVENTORIES

	2021 RMB'000	2020 RMB'000
Merchandise for resale	<u>107,783</u>	<u>143,926</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

18. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	25,554	36,620
Less: allowance for impairment of trade receivables	<u>(1,295)</u>	<u>(1,501)</u>
	24,259	35,119
Bills receivables	<u>433</u>	<u>321</u>
	<u><u>24,692</u></u>	<u><u>35,440</u></u>

As at 1 January 2020, trade receivables from contracts with customers amounted to RMB22,839,000. As at 31 December 2021, the gross amount of trade and bills receivables arising from contracts with customers amounted to RMB23,992,000 (2020: RMB34,023,000).

All the bills receivables are aged within 90 days (2020: within 60 days).

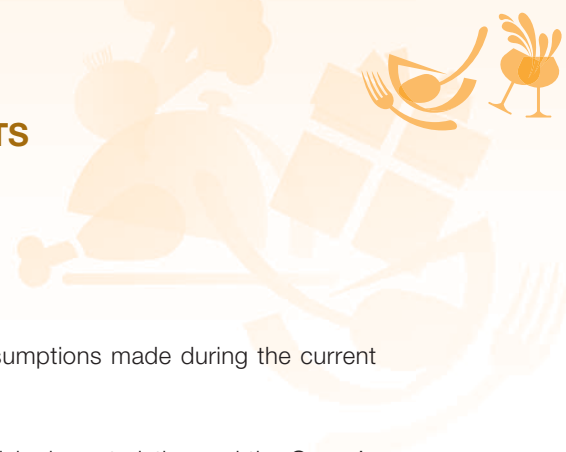
All of the Group's sales are on cash basis except for the wholesale of goods, bulk sales of merchandise to corporate customers and rental income receivable from tenants. The average credit terms offered to these customers or tenants are generally for a period of 0-180 days from the invoice date. An aged analysis of the trade receivables, net of allowance for impairment of trade receivables, at the end of the respective reporting periods, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	11,532	18,894
31 to 60 days	8,427	5,649
61 to 180 days	2,932	7,053
181 to 365 days	699	2,849
Over 1 year	<u>669</u>	<u>674</u>
	<u><u>24,259</u></u>	<u><u>35,119</u></u>

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtors' current financial positions adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Due to the financial uncertainty arising from COVID-19, the Group has increased the expected loss rate for trade receivables in the current year as there is higher risk that a prolonged COVID-19 could lead to increased credit default rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



18. TRADE AND BILLS RECEIVABLES – CONTINUED

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

As the trade receivables related to a number of customers with common risk characteristics and the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognises lifetime ECL for trade receivables based on past due status of customers collectively that are not individually significant as follows:

As at 31 December 2021	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Within 30 days	0.43%	11,582	50
31 to 60 days	0.43%	8,464	37
61 to 180 days	0.43%	2,945	13
181 to 365 days	0.43%	702	3
Over 1 year	63.96%	1,861	1,192
		25,554	1,295
		25,554	1,295

As at 31 December 2020	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Within 30 days	0.26%	18,943	49
31 to 60 days	0.26%	5,664	15
61 to 180 days	0.25%	7,071	18
181 to 365 days	0.25%	2,856	7
Over 1 year	67.69%	2,086	1,412
		36,620	1,501
		36,620	1,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

18. TRADE AND BILLS RECEIVABLES – CONTINUED

The movements in the allowance for impairment of trade receivables are set out below:

	RMB'000
At 1 January 2020	–
Impairment loss recognised	<u>1,501</u>
At 31 December 2020	1,501
Reversal of impairment loss	<u>(206)</u>
At 31 December 2021	<u><u>1,295</u></u>

The Group does not hold any collateral on the receivables.

There are no customers who represent more than 5% of the total trade receivable balance as at the end of the reporting periods. The concentration of credit risk is limited due to the customer base being large and unrelated.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVPTL include:

	2021 RMB'000	2020 RMB'000
Wealth management product	<u>–</u>	<u>43,500</u>

As at 31 December 2020, the Group invested in a wealth management product issued by a bank in the PRC with the principal amount of RMB43,500,000 (2021: nil). There were no fixed or determinable returns of the bank wealth management product and the return of principal was guaranteed. The wealth management product was due in 2021.

20. CASH AND CASH EQUIVALENTS

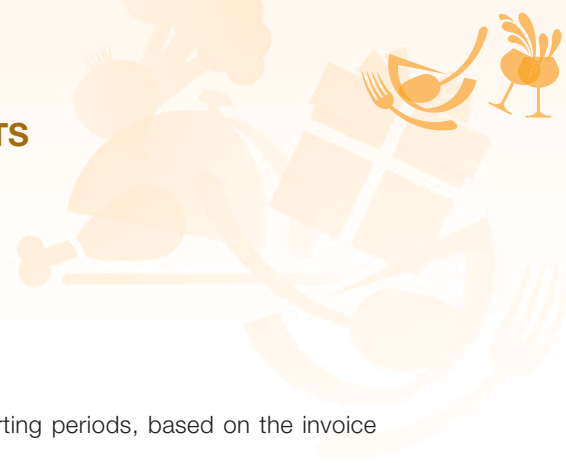
The Group's cash and cash equivalents denominated in RMB amounted to RMB95,250,000 (2020: RMB88,300,000) at 31 December 2021. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks to conduct foreign exchange business.

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. Cash at banks earns interest at floating rates based on daily deposit rates.

Details of impairment assessment of bank balances are set out in note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



21. TRADE PAYABLES

The Group normally obtains credit terms of 0-360 days from its suppliers.

An aged analysis of the trade payables at the end of the respective reporting periods, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Current to 30 days	28,683	35,455
31 to 60 days	23,654	19,425
61 to 180 days	12,148	32,631
181 to 365 days	8,557	7,182
Over 1 year	6,796	8,107
	<u>79,838</u>	<u>102,800</u>

22. DEPOSITS RECEIVED, RECEIPTS IN ADVANCE, ACCRUALS AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Rental deposits received and other refundable deposits received from suppliers	14,275	11,101
Rental income received in advance	201	350
Non-income tax payables	737	1,030
Accruals and other payables	12,823	14,924
	<u>28,036</u>	<u>27,405</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

23. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Advances received to deliver goods	17,821	13,380
Unredeemed balance of award credits	813	636
	<u>18,634</u>	<u>14,016</u>

As at 1 January 2020, contract liabilities amounted to RMB13,107,000. The changes in contract liabilities in 2021 was mainly due to more sales orders received from bulk sales retailers and wholesalers near the end of the reporting period.

Payments received in advance that are related to sales of goods not yet delivered to customers are deferred and recognised as contract liabilities. Revenue is recognised when goods are delivered to customers. The Group receives deposits on acceptance of orders on a case by case basis with customers before delivery commences.

Unredeemed balance of award credits are related to a customer loyalty incentive program based on relative standalone selling price. The amount is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Revenue recognised during the year ended 31 December 2021 that was included in the contract liabilities at the beginning of the year is RMB13,380,000 (2020: RMB12,332,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

24. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 December 2021 and 2020, the amounts due from related companies are trade-related, unsecured, interest-free and repayable within 3 months based on invoice date. All of the amounts at the end of the respective reporting periods, based on the invoice date, are within 30 days. The carrying amounts approximate to their fair values.

The amounts due from related parties are as follows:

Name of related party	Relationship	2021 RMB'000	2020 RMB'000
寶雞商場有限公司	A fellow subsidiary of a holding company	448	–
海南供銷大集酷鋪商貿有限公司	A fellow subsidiary of a holding company	194	194
		<u>642</u>	<u>194</u>

The Group measures the loss allowance for amounts due from related companies at an amount equal to lifetime ECL. The Group considers the days past due of amounts due from related companies to measure the ECL. The Group also considers the historical loss rates in prior years and adjusts for forward looking macroeconomic data in calculating the expected credit loss rates. As at 31 December 2021 and 2020, the expected loss rate for amounts due from related companies based on ageing was very low, the identified impairment loss was immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



25. BANK BORROWINGS

	2021 RMB'000	2020 RMB'000
Secured bank borrowings repayable within one year	<u>60,000</u>	<u>108,000</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2021, the bank borrowings were denominated in RMB, bore interest at fixed rate of 4.90% (2020: 5.23%) per annum.

The Group's interest-bearing bank borrowings are secured by:

- (i) the pledge of certain buildings of the Group with carrying values of approximately RMB11,852,000 and RMB11,388,000 as at 31 December 2021 and 2020 respectively (see note 13);
- (ii) the pledge of certain right-of-use assets of the Group with carrying values of approximately RMB20,729,000 and RMB19,008,000 as at 31 December 2021 and 2020 respectively (see note 14);
- (iii) the pledge of certain investment properties of the Group with carrying values of approximately RMB9,351,000 and RMB9,424,000 as at 31 December 2021 and 2020 respectively (see note 15).

26. SHARE CAPITAL

	2021		2020	
	Number of shares	RMB'000	Number of shares	RMB'000
Ordinary share of HK\$0.01 each				
Authorised:				
At 1 January and 31 December	<u>2,000,000,000</u>	<u>15,826</u>	<u>2,000,000,000</u>	<u>15,826</u>
Issued and fully paid:				
At 1 January and 31 December	<u>290,457,000</u>	<u>2,387</u>	<u>290,457,000</u>	<u>2,387</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2021 RMB'000	2020 RMB'000
Non-current asset			
Investments in subsidiaries		<u>30,660</u>	<u>31,562</u>
Current assets			
Amounts due from subsidiaries	(a)	117,160	116,022
Cash and cash equivalents		6,675	13,786
Deposits paid, prepayments and other receivables		<u>121</u>	<u>–</u>
		<u>123,956</u>	<u>129,808</u>
Current liability			
Other payables		<u>475</u>	<u>528</u>
Net current assets		<u>123,481</u>	<u>129,280</u>
		<u>154,141</u>	<u>160,842</u>
Capital and reserves			
Share capital		2,387	2,387
Reserves	(b)	<u>151,754</u>	<u>158,455</u>
		<u>154,141</u>	<u>160,842</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – CONTINUED

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand. During the years ended 31 December 2021 and 2020, the directors of the Company have performed an impairment assessment based on the expected credit loss model. No impairment losses were recognised for both years.

(b) The movement of reserves is shown as follows:

	Share premium RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2020	169,904	17,529	(14,300)	173,133
Loss for the year	–	–	(4,222)	(4,222)
Other comprehensive income for the year				
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	(10,456)	–	(10,456)
Total comprehensive expense for the year	–	(10,456)	(4,222)	(14,678)
Balance at 31 December 2020 and 1 January 2021	169,904	7,073	(18,522)	158,455
Loss for the year	–	–	(2,138)	(2,138)
Other comprehensive expense for the year				
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	(4,563)	–	(4,563)
Total comprehensive expense for the year	–	(4,563)	(2,138)	(6,701)
Balance at 31 December 2021	169,904	2,510	(20,660)	151,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

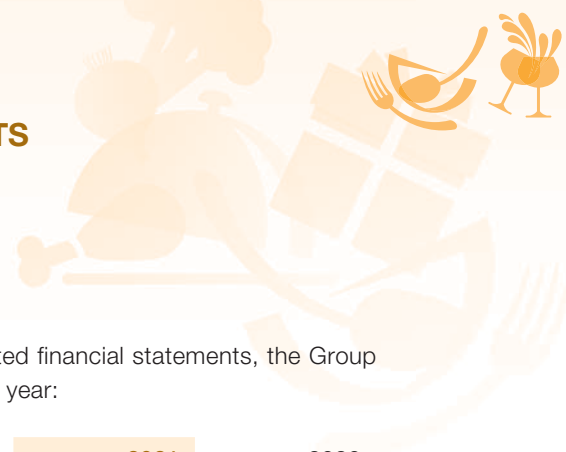
The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows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

	1 January 2021	Financing cash flows	Accrued interest	Non-cash items				31 December 2021
				Additions (note 14)	Adjustment for lease modification (note 14)	Termination of leases (note 14)	Rent concessions (note 30)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities								
Bank borrowings	108,000	(53,006)	5,006	-	-	-	-	60,000
Lease liabilities	108,345	(43,712)	5,584	34,570	-	(8,436)	(2,147)	94,204

	1 January 2020	Financing cash flows	Accrued interest	Non-cash items				31 December 2020
				Additions (note 14)	Adjustment for lease modification (note 14)	Termination of leases (note 14)	Rent concessions (note 30)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities								
Bank borrowings	108,000	(5,805)	5,805	-	-	-	-	108,000
Lease liabilities	75,147	(37,045)	5,678	68,563	3,210	(6,934)	(274)	108,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. RELATED PARTY TRANSACTIONS

- (i) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year:

Related party	Nature of transaction	2021 RMB'000	2020 RMB'000
供銷大集集團股份 有限公司	Sales of goods (Notes a and c)	1,173	875
	Rental expenses paid (Notes b and d)	-	831
		<u>1,173</u>	<u>831</u>

- (a) The consideration of sale transactions are based on (i) historical transaction prices and amount; (ii) prevailing market prices; and (iii) discount rate offered to bulk purchase customers. The credit period for sales to related parties is within 90 days.
- (b) During the year ended 31 December 2020, the Company entered into a one-year lease in respect of other office premises from a fellow subsidiary of the Group's holding company. The amount of rent payable by the Company under the lease was HK\$55,000 (equivalent to RMB47,779) per month. The Group had made lease payment of RMB143,000 to the fellow subsidiary of the Group's holding company, where the lease was accounted for as a short-term lease.
- (c) The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the "Report of the Directors" section to the annual report.
- (d) The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.
- (ii) Compensation of key management personnel of the Group, including directors' remuneration as disclosed in note 9 to the consolidated financial statements, is as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	2,213	4,305
Pension scheme contributions	14	48
Contractual compensation for loss of office paid	-	2,421
	<u>2,227</u>	<u>6,774</u>

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30. MAJOR NON-CASH TRANSACTION

As disclosed in notes 2 and 14, the Group had early adopted the Amendment to IFRS 16, COVID-19-Related Rent Concessions, and applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the year ended 31 December 2020. Rent concessions of RMB2,147,000 (2020: RMB274,000) have been accounted as negative variable lease payments and recognised in profit or loss, with a corresponding adjustment to the lease liabilities.

31. OPERATING LEASE ARRANGEMENTS

The Group as a lessor

The Group sub-leases certain areas inside their retail outlets and leases out its investment properties. The leases are negotiated for terms ranging from 1 to 10 years. None of the lease includes contingent rentals.

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:

	2021 RMB'000	2020 RMB'000
Within one year	<u>17,649</u>	<u>17,231</u>

32. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

(a) The PRC

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Scheme based on certain percentages of the eligible employee's salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees.

(b) Hong Kong

The Group also maintains the MPF Scheme for all qualifying employees in Hong Kong in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, of which the contribution was matched by employees and subject to a cap of HK\$1,500 per employee.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

The total expense recognised in profit or loss of approximately RMB7,606,000 (2020: RMB4,951,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. SHARE OPTION SCHEME

A share option scheme (the “Share Option Scheme”) adopted by the Company was approved by the shareholders on 19 August 2015.

A summary of the Share Option Scheme is set out below:

The Share Option Scheme became effective for a period of 10 years commencing on 19 August 2015. Under the Share Option Scheme, the directors of the Company shall, in its absolute discretion select and make an offer to any eligible participants to subscribe for share of the Company at a subscription price being not less than the highest of (i) the official closing price of shares as stated in the Stock Exchange’s daily quotation sheets on the date grant; (ii) the average of the official closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The period during which an option may be exercised will be determined by the board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of shares immediately following the completion of global offering (excluding the shares issued upon the partial exercise of the over-allotment option relating to the global offering), being 29,045,700 shares.

No share options were granted under the Share Option Scheme during both years. As at 31 December 2021 and 2020, there were no outstanding options granted under the Share Option Scheme.

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FOR THE YEAR ENDED 31 DECEMBER 2021

34. INVESTMENTS IN SUBSIDIARIES

Details of the major subsidiaries are as follow:

Company name	Place of incorporation/ establishment	Particulars of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company indirectly	Principal activities
Subsidiaries				
Macau Son Hak Long International Sociedade Unipessoal Limitada	Macau	MOP38,625,000	100	Operation and management of retail stores in Macau
Usmart Chain Supermarket Company Limited	Macau	MOP38,657,000	100	Operation and management of retail stores in Macau
佛山市順德區昌萬隆複合材料有限公司*	The PRC	Paid up capital of HK\$85,500,000	100	Wholesale of good in the PRC
廣東省順客隆商業連鎖有限公司#	The PRC	Paid up capital of RMB50,000,000	100	Operation and management of retail stores and wholesale in the PRC
珠海市順客隆商業有限公司#	The PRC	Paid up capital of RMB1,000,000	100	Operation and management of retail stores in the PRC
肇慶順客隆商業連鎖有限公司#	The PRC	Paid up capital of RMB10,000,000	100	Operation and management of retail stores in the PRC
廣州市順客隆超市有限公司#	The PRC	Paid up capital of RMB1,000,000	70	Operation and management of retail stores in the PRC
廣東省譽邦行供應鏈管理有限公司#	The PRC	Paid up capital of RMB500,000	100	Wholesale of good in the PRC
肇慶市高要區樂通貿易有限公司#	The PRC	Paid up capital of RMB1,000,000	100	Wholesale of good in the PRC
佛山市順德區名建貿易有限公司#	The PRC	Paid up capital of RMB6,000,000	100	Operation and management of retail stores in the PRC
佛山市順德區澳中貿易有限公司#	The PRC	Paid up capital of HK\$1,000,000	100	Operation and management of retail stores in the PRC

* registered as wholly-foreign owned enterprises under the PRC law

registered as a limited liability company under the PRC law

None of the subsidiaries had any debt securities outstanding at the end of both reporting periods or at any time during both years.

No subsidiary has non-controlling interest material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. CAPITAL RISK MANAGEMENT

The capital structure of the Group consists of debts, which include the bank borrowings disclosed in note 25 and equity attributable to owners of the Company, comprising share capital as disclosed in note 26 and reserves as disclosed in the consolidated statement of changes in equity. The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the end of the reporting period was as follows:

	2021 RMB'000	2020 RMB'000
Debt	60,000	108,000
Equity	199,751	238,160
Debt to equity ratio	30%	45%

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets		
Financial assets at FVTPL	–	43,500
At amortised cost (including bank balances and cash)	157,933	169,907

	2021 RMB'000	2020 RMB'000
Financial liabilities		
At amortised cost	165,359	234,859

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, deposits paid and other receivables, cash and cash equivalents, amounts due from related companies, trade payables, deposits received, other payables and bank borrowings.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (currency risk and interest rate risk). As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

Credit risk

As at 31 December 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from trade and bills receivables, deposits paid and other receivables, cash and cash equivalents and amounts due from related companies. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

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

For trade receivables and trade-related amounts due from related companies, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance for impairment at lifetime ECL. The Group determines the ECL on these items collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industries in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Management considered that the bills receivables to be low credit risk when there is no information indicating that they had a significant increase in credit risk since initial recognition and thus the allowance for impairment recognised during the year was limited to 12-month ECL. As at 31 December 2021, the identified impairment loss was not significant.

Management considered that rental deposits paid, other deposits paid and other receivables to be low credit risk and thus the allowance for impairment recognised during the year was limited to 12-month ECL. For the years ended 31 December 2021 and 2020, the Group assessed the ECL for rental deposits paid, other deposits paid and other receivables were immaterial and thus no loss allowance was recognised.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

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

- internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors in the Group and changes in the operating results of the debtors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

Credit risk – continued

The Group's exposure to credit risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

Credit risk – continued

The Group's exposure to credit risk – continued

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

	Notes	Internal credit rating	12-month or lifetime ECL	2021			2020		
				Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
				RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	18	Note	Lifetime ECL (simplified approach)	25,554	(1,295)	24,259	36,620	(1,501)	35,119
Bills receivables	18	Performing	12-month ECL	433	-	433	321	-	321
Rental deposits and other deposits paid	16	Performing	12-month ECL	14,639	-	14,639	12,865	-	12,865
Other receivables and interest receivables	16	Performing	12-month ECL	14,617	-	14,617	17,438	-	17,438
Amounts due from related companies	24	Note	Lifetime ECL (simplified approach)	642	-	642	194	-	194
Cash and cash equivalents	20	Performing	12-month ECL	103,343	-	103,343	103,970	-	103,970
				<u>159,228</u>	<u>(1,295)</u>	<u>157,933</u>	<u>171,408</u>	<u>(1,501)</u>	<u>169,907</u>

Note: The Group has applied simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 99% (2020: 99%) of the total trade receivables as at 31 December 2021.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations and also in respect of its cash flow management.

The Group's policy is to maintain sufficient cash and bank balances and has available funding to meet its working capital requirements. The Group's liquidity is dependent upon the cash received from its customers. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

Liquidity risk – continued

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

The following tables details the Group's remaining contractual maturities for its non-derivative financial liabilities at the end of the reporting period. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables below include both interest and principal cash flows.

	Due on demand or within one year RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2021					
Trade payables	79,838	–	–	79,838	79,838
Deposits received, accruals and other payables	25,521	–	–	25,521	25,521
Bank borrowings	60,814	–	–	60,814	60,000
	<u>166,173</u>	<u>–</u>	<u>–</u>	<u>166,173</u>	<u>165,359</u>
Lease liabilities	<u>42,309</u>	<u>61,252</u>	<u>2,796</u>	<u>106,357</u>	<u>94,204</u>

	Due on demand or within one year RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2020					
Trade payables	102,800	–	–	102,800	102,800
Deposits received, accruals and other payables	24,059	–	–	24,059	24,059
Bank borrowings	109,561	–	–	109,561	108,000
	<u>236,420</u>	<u>–</u>	<u>–</u>	<u>236,420</u>	<u>234,859</u>
Lease liabilities	<u>36,498</u>	<u>79,380</u>	<u>5,196</u>	<u>121,074</u>	<u>108,345</u>

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

Market risk

Currency risk

Certain bank balances are denominated in currencies other than the functional currencies of the entities to which they relate. The Group currently does not have a foreign currency hedging policy. Management monitors foreign exchange exposure and will consider hedging foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currencies denominated monetary assets at the end of the reporting period are as follows.

	2021 RMB'000	2020 RMB'000
HK\$	713	984
RMB	426	497
	<u>1,139</u>	<u>1,481</u>

Sensitivity analysis

The Group is mainly exposed to the currency of HK\$ and RMB.

The following table details the Group's sensitivity to a 5% (2020: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective entity's functional currency. 5% (2020: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of reporting period for a 5% (2020: 5%) change in foreign currency rates. A positive number below indicates a decrease/an increase in post-tax loss where the respective functional currencies of the reporting entity weaken 5% (2020: 5%) against the relevant foreign currencies. For a 5% (2020: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	HK\$		RMB	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Profit or loss	<u>31</u>	<u>43</u>	<u>19</u>	<u>23</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

Market risk – continued

Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate interest bearing receivables, including deposit with a bank and bank balances.

The Group's fair value interest rate risk relates primarily to its fixed-rate bank balances and bank borrowings.

The Group currently does not have an interest rate hedging policy in relation to fair value interest rate risk and cash flow interest rate risk. However, management of the Group monitors interest rate exposure on an on-going basis and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note.

Sensitivity analysis

It is estimated that a general increase or decrease of 5 basis point in 2021 in interest rates for floating rate assets, with all other variables held constant, would decrease or increase the Group's loss for the year by approximately RMB36,000 (2020: decrease or increase the Group's loss for the year by approximately RMB33,000) for the year ended 31 December 2021.

There is no impact on other components of equity.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the reporting date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 5 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for the years ended 31 December 2021 and 2020.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

Fair value

The financial assets stated at FVTPL are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of the financial assets stated at FVTPL is determined (in particular, the valuation techniques and inputs used).

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs	Significant unobservable inputs	Range	Relationship of key inputs and significant unobservable inputs to fair value
		2021 RMB'000	2020 RMB'000				
Wealth management product	Level 2	-	43,500	Present value quoted by the relevant bank	N/A	N/A	N/A

During the year, there were no transfers between levels of fair value hierarchy.

The directors of the Company consider that the carrying amounts of other current financial assets and financial liabilities recorded at amortised cost using the effective interest rate method in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.