



CHINA LONGEVITY GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1863



2021 ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Shengxiong (*Chairman*)
Mr. Huang Wanneng
Mr. Jiang Shisheng
Mr. Liu Jun (appointed on 16 December 2021)

Independent Non-executive Directors

Mr. Lau Chun Pong
Mr. Lu Jiayu
Ms. Jiang Ping

AUDIT COMMITTEE

Mr. Lau Chun Pong (*Chairman*)
Mr. Lu Jiayu
Ms. Jiang Ping

REMUNERATION COMMITTEE

Mr. Lu Jiayu (*Chairman*)
Ms. Jiang Ping
Mr. Lin Shengxiong
Mr. Lau Chun Pong

NOMINATION COMMITTEE

Ms. Jiang Ping (*Chairman*)
Mr. Lu Jiayu
Mr. Lau Chun Pong

COMPANY SECRETARY

Mr. Chow Yiu Wah, Joseph

AUTHORISED REPRESENTATIVES

Mr. Chow Yiu Wah, Joseph
Mr. Lin Shengxiong

INDEPENDENT AUDITORS

ZHONGHUI ANDA CPA Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 617, 6/F., Seapower Tower
Concordia Plaza
1 Science Museum Road,
Tsimshatsui East,
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Royal Bank House, 3rd Floor
24 Shedden Road
P.O. Box 1586
George Town
Grand Cayman
KY1-1110

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
2103B, 21/F, 148 Electric Road,
North Point,
Hong Kong

STOCK CODE

1863

CORPORATE WEBSITE

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INVESTOR RELATIONS CONTACT

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FINANCIAL HIGHLIGHTS

	2021	2020
Results		
Revenue (RMB million)	1,441.0	812.1
Gross profit (RMB million)	260.5	188.7
Profit before tax (RMB million)	117.8	44.3
Profit for the year attributable to Owners of the Company (RMB million)	106.9	45.0
Basic earning per share (RMB cents)	12.54	5.28
Gross profit margin (%)	18.1	23.2
Financial position		
Cash and cash equivalents (RMB million)	78.0	34.9
Total assets (RMB million)	1,391.4	970.2
Total debts (RMB million)	831.7	569.8
Total equity (RMB million)	559.7	400.5
Current ratio (Times)	1.0	0.9
Quick ratio (Times)	0.74	0.6
Gearing – borrowings to total assets (%)	19.0	20.9
Efficiency ratios		
Average trade receivables turnover (Days)	66	69
Average trade payables turnover (Days)	53	66
Average inventories turnover (Days)	54	76
Cash conversion (Days)	67	79

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors of China Longevity Group Company Limited (the "Company") and its subsidiaries (together referred to as the "Group"), I am pleased to present the 2021 annual report to the shareholders of the Company (the "Shareholders").

BUSINESS REVIEW AND PROSPECTS

A review of the Group's business and the Group's key financial performance indicators are set out on page 2 of this report under the section Financial Highlights and the Management Discussion and Analysis set out on pages 6 to 16 of this report.

During the year ended 31 December 2021, the Group recorded a revenue growth of 77.4% from approximately RMB812.1 million last year to approximately RMB1,441 million. The profit attributable to shareholders for the year was approximately RMB106.932 million as compared to RMB45 million in the previous year.

During the year, amid the broader pandemic and a significant increase in upstream chemical material price, the Group continued to focus on high-performance PVC composite products and eco-friendly building products business, making breaking-throughs in terms of lead time and the following achievements:

Contributing to the global fight against the pandemic: Sijia helped build the "Fire Eye (火眼)", "Falcon (獵鷹號)", and "Triumph (凱旋號)" hard air-inflated multi-compartment assembly as nucleic acid test laboratories to support Hong Kong, Guangzhou, Suzhou, Harbin and other areas in the country during the outbreak of pandemic, improving the efficiency of pandemic prevention and control across the country.

Low carbon and emission reduction, Sijia helped Beijing to host a green Olympic Games: Sijia provided three major competition venues of Beijing Winter Olympic Games with solutions for temporary facilities, used as spectator area systems, athlete service systems, as well as functional rooms including television broadcasting, pandemic prevention and control, logistics and others. Those facilities can be easily demolished and are featured with less construction waste generation, so that they can strike a balance between the convenience of recycling facilities and sustainable development.

Building a green eco-friendly Fuqing Industrial Park (福清產業園) in an intelligent, digitalized and international manner: Fuqing Sijia New Materials Technology Industrial Park project was successfully executed, which will be built into the third largest production base of the Group to achieve high quality development.

CHAIRMAN'S STATEMENT

Leading the drafting of local standards and participating in the development of national standards: Fujian Sijia participated in the drafting of "Low Temperature Bending Test for Rubber or Plastic-Coated Fabrics" (《橡膠或塑料塗覆織物低溫彎曲試驗》) and Shanghai Sijia participated in the drafting of "Determination of Abrasion Resistance of Rubber or Plastic Coated Fabrics by Tabor Method" (《橡膠或塑料塗覆織物耐磨性的測定泰伯法》). The two national standards were officially released and will be implemented since May 2022. Fujian Sijia jointly drafted the local standards in Fujian Province "Test Methods for Airtightness of Multilayer Fibre Fabric/PVC Hollow Composites" (《多層纖維布／聚氯乙烯中空複合材料氣密性試驗方法》) with Fuzhou University and Yifangda Knitting (伊紡達針紡), which was officially released and will be implemented from 9 May 2022.

Management of cost and digital factory projects to promote high quality development: The Group launched two management upgrading projects: cost and comprehensive management guidance and digital factory construction, to help the Group further realize a more efficient and scientific digital management model.

Social recognition: Fujian Sijia was selected as one of the leading industrial enterprises in Fujian Province, listed as one of "Top 100 Strategic Emerging Industry Enterprises" in Fujian in 2021 and received the "May Day Labor Medal of Fujian Province in 2021"; Shanghai Sijia passed the energy management system certification and was awarded the Shanghai Green Factory. Mr. Lin Shengxiong, chairman of Sijia, was recognized as "Outstanding Private Entrepreneur of Fujian Province" by the provincial government and elected as the President of Fujian Plastics Industry Association; Mr. Huang Wanneng was recognized as "Fuzhou Artisan of the Year 2021".

Green energy saving and emission reduction: During the year, the Group launched the rooftop photovoltaic power generation projects at its two production bases in Shanghai and Fuzhou to promote energy saving and emission reduction with green electricity. With a combined efforts in saving energy in multiple ways, such as photovoltaic power generation, energy saving in production, use of green material, introduction of green products design and reuse of water resources, the Group tries to enhance the overall environmental benefit in the industrial park and build an eco-civilized Sijia industrial park.

Adhering to the original aspiration and continuing to participate in public welfare activities: The Group launched various public charity activities, to help consolidate the results of poverty alleviation and rural revitalization, and to finance education, in which way we look to repay the society with gratitude and appreciation.

Given the heightened complexity of global political and economic conditions due to the impact of COVID-19 pandemic, the greater impact brought by the China-U.S. trade war on the market and economy, together with the persisting causes contributing to instability of market competition, the Group sees 2022 is a year in which it shall do the utmost to work through amidst a challenging economic environment. The management will continue to cooperate with domestic colleges and institutions and develop innovative and environment-friendly materials and eco-friendly construction materials products, and invest more in the development of PVC materials and super core eco-friendly construction products of Sijia. All of these shall help to boost its development.

CHAIRMAN'S STATEMENT

As the trading of shares of the Company on the Stock Exchange has been suspended since 14 February 2013, the management will fully cooperate with the engaged professional parties. The Company is currently applying for the resumption of trading in its shares on the Stock Exchange (the "Resumption"). The Company would update its Shareholders on the progress of the Resumption through further announcement in due course.

With the support of the Group's Shareholders and the leadership of the Board, the Group will continue its product technology innovation strategy, reinforce its position in the markets of existing products, and develop drop stitch fabric products, airtight materials and super core eco-friendly construction products of Sijia as its core business in the future. Furthermore, the Group will persistently uphold its market development philosophy, and devote to creating value for its customers and repaying its Shareholders and the community.

APPRECIATION

On behalf of the Board, I would like to extend our sincere gratitude to the Shareholders, customers and business partners of the Group for their persistent support throughout the year. Lastly, I would like to take this opportunity to thank all colleagues and staff for their persistent contribution to the Group.

On behalf of the Board

LIN Shengxiong

Chairman

Hong Kong, 30 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW OF 2021

Being one of the notable leaders among the industry of manufacturing new materials featuring eco-friendliness and special features around the globe, the Group, whose businesses cover over 100 nations and regions around the world, takes low carbon and emission reduction and technical innovation as the core value and functional new materials as the dominant products. The Group is dedicated to leading the eco-friendly industrial chain development of the industry, offering technical consultancy and services for the industry, providing Sijia new materials and super core construction material products for modern transportation, medical care, architecture, outdoor leisure activities and athletic sports. The Group's high-performance PVC composite material ("Material Products") business, located in Fuzhou and Shanghai, utilizes self-developed equipment and processes that have been granted the national invention patents in manufacturing new materials, including drop stitch fabric, architectural film, waterproofing film, marquees materials, air tightness materials, inflatable boats materials and inflatable materials. The Group's eco-friendly building materials (formerly known as Flooring Products) ("Building Material Products") business, located in Fuzhou, sells products across the world which are applicable in a wide spectrum of public and household domains, including education, healthcare, commerce, sports, offices, industrial usage and transportation because they are in compliance with EU and U.S. standards and environmental requirements under the brands of "Zero Formaldehyde Super Core Flooring" and "Carbon Crystal Stone Wall Panel".

By virtue of our team's efforts, the Group achieved a total revenue of approximately RMB1,441.0 million for the year ended 31 December 2021 (2020: RMB812.1 million), representing an increase of approximately RMB628.9 million, or 77.4% over last year.

The increase in revenue was mainly attributable to: (i) sales growth from efforts in consolidating the market shares of existing products; (ii) sales growth from developing new products drop stitch fabric; (iii) sales growth from material products with positive net margin because we managed to maximize sales scale and minimize costs.

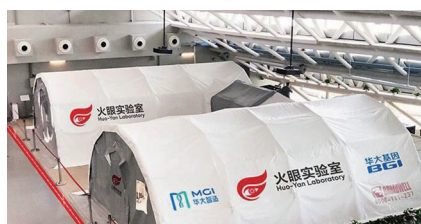
The decrease in the gross margin is attributable to the increase in the cost of raw materials (such as polyvinylchloride powder and plasticizer).

The Group's products can be categorized into two: (i) Material; and (ii) Building Material. The Group generated most of its revenue from Material Products which accounted for approximately 93.5% (2020: 91.5%) of total revenue. Domestic sales continued to be the Group's major source of revenue, representing approximately 78.8% (2020: 72.8%) of the total revenue while export sales accounted for approximately 21.2% (2020: 27.2%) of the total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

As of 31 December 2021, the Group's products used in outdoor leisure activities and athletic sports, including drop stitch fabric, inflatable boats materials, air tightness materials, recorded further growth. Enterprises and studios in many regions adopted work from home policy to reduce outdoor activities due to the COVID-19 which affected and changed the way people gather in work and daily life. Against this backdrop, we managed to maintained the continuous growth in the demand of inflatable products by expanding the research and development by category of water inflatable products for indoor, backyard and personal sea field use and indoor inflatable products. In addition, with the enhanced cooperation between the Group and Costco, the biggest membership wholesale-store style chain supermarket in U.S., French Decathlon and English Red Paddle due to the Group's successfully developed new products, the Group builds up the strategic league of global ecosystem supply chain and expands the market for new inflatable products related to drop stitch fabric.

The COVID-19 posed greater challenges to the global economy in 2021. The Group took active steps to build up an emergency response action group, spared no efforts to support the manufacturing and supply of materials needed in negative pressure isolation wards, actively produced anti-bacteria film for medical use. The Group also cooperated with clients in completing the building-up of five-compartment-into-one hard air-inflated nucleic acid test laboratories including "Falcon", "Fire Eye" and "Triumph", and supported Hong Kong, Guangzhou, Suzhou, Harbin etc. during a sudden outbreak of COVID-19 as one of the leading forces in nucleic acid testing which helped improve the efficiency of the battle against COVID-19 in different areas.



MANAGEMENT DISCUSSION AND ANALYSIS

What's more, honored as the supplier of architectural film needed in temporary stadium of the Beijing Winter Olympic Games, the Group actively participated in the R&D and testing of materials used in national sports and fitness gyms in different place in the country, temporary stadiums of the three major competition venues of the Beijing Winter Olympic Games and nucleic acid test laboratory in Zhangjiakou Competition Venue, and completed the delivery of all materials in the second half of 2021.



The table below sets forth the Group's revenue by products:

	For the year ended 31 December			
	2021		2020	
	(RMB million)	% of total revenue	(RMB million)	% of total revenue
Material Products	1,347.9	93.5	743.4	91.5
Building Material Products (formerly known as Flooring Products)	93.1	6.5	68.7	8.5
	1,441.0	100.0	812.1	100.0

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the Group's revenue by geographical locations:

	For the year ended 31 December			
	2021		2020	
	(RMB million)	% of total revenue	(RMB million)	% of total revenue
PRC	1,135.9	78.8	591.1	72.8
Others	305.1	21.2	221.0	27.2
	1,441.0	100.0	812.1	100.0

Market Prospects of Material Products and Building Material Products

Prospect of Material Product and Building Material Product Markets

In 2021, the Group's top sellers were the products developed through continuous technological innovation: drop stitch fabric and inflatable boat materials.

As at 31 December 2021, the Group owned a total of 78 patents. Among these, Fujian Sijia owned 51 patents (35 invention patents and 16 utility model patents), and Shanghai Sijia owned 27 patents (9 invention patents, 13 utility model patents and 5 software copyrights). The Group has been proactive in patent application every year, to secure the continued protection of the brand's intellectual property interests.

In 2021, as the global market confronted multiple challenges arising from the Sino-US trade war and the COVID-19 outbreak, a large number of competitors rushed to imitate the Group's products in the market and adopted a low pricing strategy in order to increase their market shares. The Group will encounter further unprecedented difficulties and challenges. Yet a challenging market may also unleash new innovations and opportunities. Crisis often gives rise to opportunities, whereas pressure and motivation are the two sides of the same coin.

The Group will continue to step up the structural adjustment of its Material Products and promote Building Material Products, drop stitch fabric, inflatable boat materials, airtight materials and inflatable materials, to high-end customers with a particular focus on promoting Building Material and new application products of drop stitch fabric materials, with an aim of expanding the market of drop stitch fabric products so as to maintain the Group's competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Products

During the year ended 31 December 2021, the Group's revenue generated from Material Products amounted to approximately RMB1,347.9 million (2020: RMB743.4 million) which accounted for approximately 93.5% (2020: 91.5%) of the Group's total revenue, representing an increase of approximately 81.3%. The increase in revenue from Material Products was mainly due to the increase in revenue of drop stitch fabric.

Building Material Products

During the year ended 31 December 2021, the Group's revenue generated from Building Material Products amounted to approximately RMB93.1 million (2020: RMB68.7 million) which accounted for approximately 6.5% (2020: 8.5%) of the total revenue.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2021 was approximately RMB1,441 million, representing an increase of approximately RMB628.9 million, or 77.4%, compared to the revenue of approximately RMB812.1 million for last year. For the year under review, the Group's major sales segments, namely, (1) Material Products recorded a revenue of approximately RMB1,347.9 million (2020: RMB743.4 million); and (2) Building Material Products recorded a revenue of approximately RMB93.1 million (2020: RMB68.7 million). The increase in revenue was mainly due to the increase in demand for Material Products.

Gross Profit and Gross Profit Margin

Gross profit was approximately RMB260.5 million for the year under review (2020: RMB188.7 million), with the gross profit margin of approximately 18.1% (2020: 23.2%).

The table below sets forth the Group's gross profit margin by products:

	For the year ended	
	31 December	
	2021	2020
	%	%
Material Products	18.7	24.4
Building Material Products	7.6	10.1
Total	18.1	23.2

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Year

The Group recorded a profit attributable to equity holders of approximately RMB106.9 million, or approximately RMB12.5 cents for basic earning per share for the year ended 31 December 2021 (2020: RMB45.0 million or RMB5.3 cents for basic earning per share).

Selling and Distribution Costs

Selling and distribution costs were approximately RMB42.3 million (2020: RMB28.6 million). An increase in selling and distribution costs was mainly due to an increase in transportation expenses and patent royalty fees of the products.

Administrative Expenses

Administrative expenses were approximately RMB92.9 million (2020: RMB73.2 million). The increase in administrative expenses was mainly due to the increase in research and development costs for Material Products.

Research and Development

Research and development (the "R&D") costs were approximately RMB60.0 million (2020: RMB48.0 million). The Group believes that its ongoing R&D efforts are critical in maintaining long-term competitiveness and retaining existing customers. To explore new technologies and new products in order to attract new customers and develop new markets, the Group continues to dedicate resources to the R&D activities in its Fuzhou and Shanghai plants, aiming to lower the cost of raw materials, streamline manufacturing processes, increase production capacities and develop high value-added new materials.

Impairment of Various Assets

— *Impairment of Trade and Other Receivables*

The management of the Group took a prudent approach in assessing the collectability of trade and other receivables and would review the status of the receivables. This includes taking into consideration, the credit history of the customers of the Group and the prevailing market condition.

During the year ended 31 December 2021, reversal of allowance have been recognised in respect of trade receivables in the amount of approximately RMB1.6 million (2020: RMB1.2 million).

— *Impairment of Inventories*

Impairment of inventories amounted to approximately RMB0.7 million (2020: RMB5.3 million) for the year ended 31 December 2021 was recognised by the Group. It was mainly attributable to write down the slow moving and obsolete stocks.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs were approximately RMB15.7 million (2020: RMB9.1 million). The increase in the finance costs was mainly due to the increase in bank loans.

Gain on revaluation of property, plant and equipment

During the year, the Group revalued plant and machinery and recognised a revaluation gain of approximately RMB5.6 million (2020: loss of RMB43.6 million) by reference to a professional valuation report.

Liquidity and Financial Resources

Total Equity

As at 31 December 2021, total equity was approximately RMB559.7 million, representing an increase of 40%, as compared to approximately RMB400.5 million as at 31 December 2020.

Financial Position

As at 31 December 2021, the Group had total current assets of approximately RMB783.8 million (2020: RMB456.9 million) and total current liabilities of approximately RMB784.7 million (2020: RMB528.9 million), with net current liabilities of approximately RMB1.0 million (2020: RMB72.0 million).

As at 31 December 2021, the Group's net gearing ratio (expressed as a percentage of total interest-bearing liabilities to total assets) was at 19.0%, compared to 20.9% as at 31 December 2020.

Cash and Cash Equivalents

As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB78.0 million (2020: RMB34.9 million), most of which were denominated in Renminbi.

Bank Borrowings

The Group had interest-bearing bank borrowings of approximately RMB193.8 million (2020: RMB166.0 million), while total banking facilities amounted to approximately RMB313.6 million (2020: RMB295.6 million).

Contingent Liabilities

As at 31 December 2021, the Group had no material contingent liabilities (2020: Nil).

Capital Commitments

As at 31 December 2021, capital commitments of the Group were approximately RMB74.0 million (2020: RMB11.5 million). The capital commitments will be funded partly by internal resources and partly by bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

As at 31 December 2021, the Group mortgaged its buildings, plant and machinery of approximately RMB300.0 million (2020: RMB286.2 million), leasehold land of approximately RMB15.2 million (2020: RMB15.6 million), investment properties of approximately RMB20.5 million (2020: RMB21.0 million) in the PRC and bank deposits of approximately RMB138.7 million (2020: RMB58.9 million) were pledged to banks to secure bank loans and general banking facilities granted.

Dividends

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

Human Resources

As at 31 December 2021, the Group had a total of 471 employees (2020: 457 employees). There was no significant change in number of staff as compared to last year.

The Group regards human capital as vital for its continuous growth and profitability and remains committed to improving the quality, competence and skills of all employees. The Group provided job related training throughout the organisation. The Group will continue to offer competitive remuneration packages and bonuses to eligible staff, based on the performance of the employees.

Exposure to Fluctuations in Exchange Rates and Related Hedge

Most business transactions of the Group are settled in Renminbi (“RMB”) since the operations of the Group are mainly carried out in the PRC, and the major subsidiaries of the Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB. The reporting currency of the Group is RMB.

The Group’s cash and bank deposits are predominantly in RMB. Based on the aforesaid, the Group does not enter into any agreement to hedge against the foreign exchange risk. The Company will pay dividends in Hong Kong Dollars if dividends are declared and it will continue to monitor the fluctuation of RMB closely and will introduce suitable measures as and when appropriate.

MATERIAL ACQUISITION AND DISPOSAL

During the year ended 31 December 2021, the Company invested approximately RMB30 million (representing 51% of the total registered capital) in a newly formed subsidiary, Fujian Sijia New Materials Technology Co., Limited.

MANAGEMENT DISCUSSION AND ANALYSIS

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed herein, the Group did not have any details of future plans for material investment or capital assets as at 31 December 2021.

FUTURE PROSPECTS

Prospects

Amid the current severe global pandemic, the continuous economic weakness, China-U.S. trade tensions and political tensions in Europe, by responding to national policies, the Group has made strategic deployment and changes and leveraged on a dual-driver model consisting of international and domestic sales market. Looking forward into 2022, the Group is determined to upgrade its businesses and operation models in a holistic way by relying on its innovative technologies and the professional technical team who are recognized by domestic and international peers:

1. to reinforce the development of new materials business while develop new products actively.
2. to innovate new eco-friendly building materials products, actively market the brand of super core flooring of Sijia and made deployment in Chinese building material market.
3. to deploy the SRM platform and build up the eco-friendly supply chain, in particular: to deploy the SRM platform to connect with upstream suppliers; to build up digital connection with downstream customers to exchange production and sales information; to establish EnMS platform to connect with resource management platform of Ministry of Industry and Information Technology; to establish MES platform to connect with the PLC of production equipment through MQTT protocol to grasp real-time production data; to collect real-time production data and to promote standardization and upgrade of production process. The Group endeavors to establish a closed-loop for all links and connect with upstream and downstream industrial chains in a digitalized and information-oriented manner, to achieve mutual success and win-win situation.
4. to implement major strategic deployment: Sijia Group, based on the "10+" Jia culture system, looks to foster positive and merit-oriented corporate culture and spirits, lead the management in terms of talent, quality, safety, market and others of the Group, spread the culture of Sijia via "Sijia People (思嘉人)" and various WeChat official accounts of the Group, build an eco-friendly, civilized and healthy Sijia Industrial Park (思嘉工業園), so as to drive the Group's high-quality development. Meanwhile, during the "14th Five-Year Plan" period, Sijia will focus on sales growth, product layout, technological innovation, organizational structure change, team building and other aspects.

MANAGEMENT DISCUSSION AND ANALYSIS

5. To construct Fuqing Industrial Park: The first phase of the project will cover an area of 300 acres, and after completion, it will mainly carry out large-scale production and operation of super core flooring products, carbon crystal stone wall panels, TPU commercial coils, high-performance fibers and composite materials, purchase a part of the production raw materials from local upstream enterprises, form an upstream-and-downstream industrial chain of new chemical materials, create advantageous conditions for upstream and downstream cooperation in research and development on new material technologies, and greatly reduce the time on matching of upstream raw material. All of these shall help to achieve a more efficient and high-quality development mode, and facilitate the synergy between the upstream and downstream industries in Jiangyin Port Economic Zone.
6. to deepen innovation of management, and make breakthroughs in lean management and security and environmental protection management.
7. to track the supply chain developments of industrial leaders to achieve the strategic goal of high efficiency, correctness, sustainability and digitalization.
8. to continuously promote the optimization of internal control processes such as procurement, production, sales and finance to improve operational efficiency.
9. to cultivate a team of high-level technical talents to further strengthen our competitiveness, enhance the competitive strength in respect of talents, and promote sustainable development.
10. to enhance the protection of intellectual property rights for new technologies and processes, apply for more technology patents, build up a most innovative technology-based group in the industry, and create value for the shareholders of the Company.
11. to plan to create a national enterprise technology center and cooperate with universities to establish a post-doctoral workstation.
12. to endeavor to create better living and working conditions to further improve the quality of material and spiritual life of Sijia employees; and
13. to actively fulfill our corporate responsibilities, actively participate in activities to help revitalize the countryside and repay our hometown, as well as activities such as "1,000 enterprises helping 1,000 villages" and precise education and poverty relief.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board of the Company consists of seven directors, including four executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Lin Shengxiong (林生雄先生), aged 58, is the Chairman and an executive Director of the Company. Mr. Lin is one of the founders of the Group and a substantial shareholder of the Company. Mr. Lin was appointed as a Director on 7 October 2009. Other than holding directorship in the Company, Mr. Lin is also a director of China Grandsoo Holding Company Limited and Sijia International Holding Limited. He is responsible for all strategic planning of the Group. Mr. Lin has over 34 years of experience in the polymers and plastics industry. He has extensive experience in corporate development and production management. Mr. Lin was elected as the life honorary chairman of Association of Plastic Material Industry of Fuzhou City* (福州塑膠同業公會) and the honorary chairman of the Nantai Federation of Enterprises and Entrepreneurs of Pingtan Comprehensive Pilot Zone* (平潭綜合實驗區巖台企業與企業家聯合會) in 2018. He was also elected as the president of Private Technology Entrepreneur Association of Fuzhou City* (福州市民營科技實業家協會) and the president of Sanming Chamber of Commerce of Fuzhou City* (福州市三明商會) in 2018. Mr. Lin completed the certificate course for graduate students in world economics in Graduate Students' College of Xiamen University (廈門大學研究生學院) in September 2001.

Mr. Huang Wanneng (黃萬能先生), aged 53, is an executive Director of the Company. Mr. Huang was appointed as a Director on 7 October 2009. Other than holding directorship in the Company, Mr. Huang is also the manager of Sijia New Material (Shanghai) Co., Ltd.* (思嘉環保材料科技(上海)有限公司). He is principally responsible for the research and development of the Group. Mr. Huang is a chief mechanical engineer and has 32 years of experience in the polymer and plastic industry. He has extensive experience in on-site management, development of technology and equipments and improvement in production techniques. Mr. Huang joined the Group and served as deputy general manager and chief engineer of Fujian Sijia, mainly responsible for the new equipments, technology and product development, equipment management and technology reform of equipments since September 2002. Prior to joining the Group, Mr. Huang worked for Fujian Hongming Plastics Co., Ltd.* (福建省宏明塑膠股份有限公司) where he served various positions, namely, workshop technician, workshop supervisor, equipment engineer and department chief of equipment department from July 1989 to August 2002. During this period, Mr. Huang specialised in management of production automation system used in the manufacturing of polymer products. He obtained his bachelor's degree in electric engineering from Southeast University in July 1989. He was awarded the title of "Model Worker of Fuzhou City" by the People's Government of Fuzhou in 2013, awarded the honorary title of "top 10 inventor in Fuzhou City" by the Fuzhou Municipal Labour Union* (福州市總工會), and selected as an awardee in the first "Jin'an District Outstanding Talents Award" by the People's Government of Jin'an District, Fuzhou, Fujian in early 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Jiang Shisheng (蔣石生先生), aged 52, is the division head of technical department of the Group, and primarily responsible for technological development of the Group. Mr. Jiang was approved as an engineer by Fujian Provincial Bureau of Personnel in December 1998. Prior to joining the Group in August 2006, Mr. Jiang served various positions as crafts technician, supervisor of technological development department and supervisor of technical center of Fujian Hongming Plastics Co., Ltd* (福建宏明塑膠股份有限公司) from July 1992 to August 2003, crafts engineer of Sanming Mingxin Plastics Co., Ltd* (三明明鑫塑膠有限公司) from August 1993 to July 1999, and supervisor of technical department of Zhejiang Longyue Technology Co., Ltd.* (浙江龍躍科技有限公司) from August 2003 to April 2006. Mr. Jiang obtained a bachelor degree in engineering from Tianjin University of Light Industry* (天津輕工業學院). He was involved in drafting and applying of dozens of patents for the Company. Mr. Jiang was awarded the honorary title of “top 10 inventor in Fuzhou city” by the Fuzhou Municipal Labour Union* (福州市總工會) in 2014 and won numerous provincial and ministerial scientific and technological improvement awards.

Mr. Liu Jun (劉俊), aged 41, the general manager of the building materials business department of the Group, is primarily responsible for the Group’s building materials sales business development and brand marketing and promotion. Joined the Group in May 2003, Mr. Liu served as the head of the business section, the general manager of the industrial cloth procurement center in East China, the general manager of the materials business department and other positions of Fujian Sijia Industrial Material Co., Ltd.* (福建思嘉環保材料科技有限公司) (“Fujian Sijia”) between May 2003 and December 2009, where he established the positioning of Sijia material, created “Sijia 9A” brand and determined the Group’s leading position in the new domestic material industry. He was designated as the general manager of Xiamen Grandsoo Industrial & Trade Company Limited from January 2010 to February 2018, where he established a sales team and the “Jiang Taigong”* (姜太公) brand, which contributed to the first ranking of product sales in the market. He has been serving as the general manager of the building materials business department of Fujian Sijia since March 2018, where he established the building materials business department, created the “Sijia Supercore” building materials brand, took charge of the production technology and management of new product development of the building materials business department, and participated in the drafting and application of five patents of the Company. Mr. Liu studied business administration courses at Tianjin University of Light Industry* (天津輕工業學院), currently known as Tianjin University of Science and Technology.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Lau Chun Pong (劉振邦先生), aged 47, graduated from the University of California, Los Angeles with a Bachelor of Arts degree in Business Economics in 1997. Mr. Lau is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He has over 16 years' working experience in the accounting and auditing field. Mr. Lau was the Qualified Accountant and Company Secretary of Shenzhen Mingwah Aohan High Technology Corporation Limited (深圳市明華澳漢科技股份有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8301), since April 2005 till May 2006. He was the Financial Controller and Company Secretary of WE Solutions Limited (formerly known as O Luxe Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 860), since June 2008 till November 2017. He was the Group Financial Controller and Company Secretary of AV Promotions Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8419), since June 2018 till June 2019. He was the Company Secretary of Superb Summit International Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1228). He was the Company Secretary of Grand T G Gold Holdings Ltd (大唐潼金控股有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8299) since January 2019 till February 2020. He is currently an independent non-executive director of China CBM Group Company Limited (中國煤層氣集團有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8270), since 13 November 2017 and the Chief Financial Officer and Company Secretary of Clifford Modern Living Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3686), since 20 December 2019.

Mr. Lu Jiayu (盧佳譽先生), aged 56, graduated from the Fujian Radio and Television University* (福建廣播電視大學) in 1994. Mr. Lu has extensive experience in accounting, marketing, and business management. Prior to joining the Company, Mr. Lu held various positions in Youxi County Agricultural and Mechanical Company* (尤溪縣農業機械公司) from July 1985 to December 1996. From January 1996 to January 2004, Mr. Lu worked in the Xiamen Liangxing Chemical and Industrial Company* (廈門聯星化學工業公司) and was promoted to its associate general manager before he left his employment. In February 2004, Mr. Lu joined Fujian Shenlangxiang Cooking Oil (Group) Company* (福建沈郎鄉食用油(集團)公司) as its associate general manager in sales department and was promoted to general manager of its Fuzhou branch company before he left his employment in May 2008. From June 2008 to June 2014, Mr. Lu was the director of Youxi County People's Government Office in Fuzhou* (尤溪縣人民政府駐福州辦事處). He was the legal representative and general manager of Fujian Xulong Cultural Industry Company Limited* (福建旭隆文化產業有限公司). Mr. Lu was elected as the executive chairman of Youxi Chamber of Fuzhou Commerce* (福州尤溪商會) since June 2012 and the secretary general of Sanming Chamber of Commerce of Fuzhou City* (福州市三明商會) in 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Jiang Ping (姜萍女士), aged 57, graduated from the Shenyang Industrial College* (瀋陽工業學院) (currently known as Shenyang University of Technology (瀋陽理工大學)) in 1999. Ms. Jiang has over 20 years of experience in accounting, audit and finance management. Prior to joining the Company, Ms. Jiang held various positions in Shenyang First Food Plant* (瀋陽市第一食品廠) from August 1986 to October 1992. From October 1992 to July 1997, Ms. Jiang has worked for the China Chemical & Light Industrial materials Corporation and Shenyang Chemical Joint Company* (中國化工輕工材料總公司瀋陽化工聯合公司) where she was responsible for preparing statistical statements and auditing of product costs. From July 1997 to May 1999, Ms. Jiang held various positions in accounting at Shenyang Food Manufacturing Company Limited* (瀋陽食品釀造有限公司) and was the financial manager before she left her employment. From May 1999 to March 2008, Ms. Jiang worked for Liaoning Huashang Certified Public Accountant Company Limited* (遼寧華商會計師事務所有限責任公司) and was responsible for various auditing duties. Since March 2008, Ms. Jiang held the position of executive director and general manager of Shenyang Linghang Finance and Taxation Company Limited* (瀋陽領航財稅事務有限公司).

Senior Management

Mr. Chow Yiu Wah, Joseph (周耀華先生), aged 62, is the Company Secretary and Chief Financial Officer of the Group, and is responsible for the overall company secretarial, compliance and financial control of the Group. Mr. Chow has over 30 years' experience in the accounting, auditing and company secretarial work. Mr. Chow obtained a Bachelor of degree (Hons) in Accounting from University of Ulster (UK). He is fellow member of the Chartered Association of Certified Accountants, Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales and Hong Kong Securities and Investment Institute.

Ms. Zheng Lijuan (鄭麗娟女士), aged 42, is the deputy general manager and division head of the procurement department of the Group and is responsible for the procurement management and control of the Group, cost control and the internal sales, operation and management of the Group's flooring product projects. Ms. Zheng joined the Group in October 2005; during the period from October 2005 to June 2010, Ms. Zheng was the division head of finance of the Group; in March 2010, the division head of the procurement department of the Group; in June 2010, she was promoted as the deputy general manager. Ms. Zheng graduated from Xiamen University (廈門大學) in 1999, majoring in financial accounting and completed the MBA course of Fuzhou University (福州大學) in 2010.

Mr. Liao Basheng (廖八生先生), aged 54, is the general manager and the head of manufacturing center of the Group's Fuzhou factory, responsible for conducting and coordinating the Company's overall manufacturing operations. Prior to joining the Group, Mr. Liao employed by a wholly-Taiwanese owned enterprise and has over 26 years of experience in industry production management, and possesses knowledge and skills with respect to quality, techniques, raw materials, operations, equipment, electrical and mechanical matters, and safety practices. He is capable of organizing staff in the production line in the most efficient manner to ensure completion of the production tasks allocated by the Company on schedule in compliance with quality standards. With a comprehensive skill set in organisation, commands giving and coordination, Mr. Liao is capable of solving significant quality and safety issues in the course of production independently, as well as reasonably arranging and allocating the Company's staff in the production line and management personnel in line with corporate development needs and requirements, partaking in discussions over a multitude of corporate management duties with staff members, listening to the staff's diverse opinions along with establishing a myriad of sound rules and regulations.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhu Chaoyang (朱超揚先生), aged 53, is the engineer of the Group's the Fuzhou factory's equipment center and principally responsible for research and development of techniques for the Group's electrical equipment, equipment management and advancing equipment techniques, and has completed the design and installation of a combination of several production lines. With over 23 years of experience in industry technologies, equipment development, and production techniques improvement, Mr. Zhu possesses core knowledge and skills in operations, equipment, electrical and mechanical matters, and safety practices. Mr. Zhu graduated from Zhengzhou University of Light Industry* (鄭州輕工業學院), majoring in household electrical appliances.

Mr. Huang Daohuo (黃道火先生), aged 49, is the deputy director of the Group's product marketing and the head of production scheduling of the Group's Fuzhou factory, mainly responsible for the marketing of new products and the after-sale technical support service of the Group, as well as the management of the production scheduling of the Fuzhou factory. Mr. Huang joined the Group in July 2003 and has 23 years of experience in polymer materials industry.

Ms. Chen Guangxing (陳光星女士), aged 34, is the Vice General Manager of Sijia Industrial Material (Shanghai) Company Limited (the "Shanghai Sijia"). Ms. Chen joined the Group in December 2005 and worked as the Financial Accountant and President's Assistant in the subsidiary of the Group, namely Fujian Sijia Industrial Material Company Limited from December 2005 to August 2012. Ms. Chen worked as the Vice General Manager of Shanghai Sijia since September 2012 and is responsible for overall in charge of purchasing, human resource and warehousing management. Ms. Chen graduated from Tianjin Technology University majoring Financial Accounting.

CORPORATE GOVERNANCE REPORT

The Board of the Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public.

The Board will strive to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all of its shareholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Board has established procedures on corporate governance that comply with the requirements of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules. The Board has reviewed and taken measures to adopt the CG Code as the Company’s code of corporate governance practices. During the year ended 31 December 2021, the Company has complied with the code provisions under the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the standard for securities transactions by Directors. The Company has made specific enquiries to all the Directors and all the Directors have confirmed their compliance with the required standards set out in the Model Code for the year ended 31 December 2021.

THE BOARD

The Board’s primary responsibilities are to oversee the management of the Group, to formulate the Group’s long-term corporate strategy including the formulation and approval of all policy matters, internal control and risk management systems, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board.

In addition, the Board has also established Board Committees and has delegated to these Board Committees various responsibilities set out in their terms of reference respectively.

The Board has delegated the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group’s businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

CORPORATE GOVERNANCE REPORT

COMPOSITION OF THE BOARD

As at the date of this report, the Board of Directors was chaired by Mr. Lin Shengxiong. There are (i) four executive Directors, namely Mr. Lin Shengxiong, Mr. Huang Wanneng, Mr. Jiang Shisheng and Liu Jun, and (ii) three independent non-executive Directors, namely Mr. Lau Chun Pong, Mr. Lu Jiayu and Ms. Jiang Ping.

The name and biographical details of each director are set out in the section of Biographical Details of Directors and Senior Management on pages 17 to 21 of this annual report. All Directors have confirmed that they have taken an active interest in the Company's affairs and obtained a general understanding of its business.

The Directors or senior management have no financial, business, family or other material/relevant relationship with each other. Such balanced board composition is formed to ensure strong independence in the Board.

The composition of the Directors in office during the year and up to the date of this annual report are set out in the "Report of the Directors" on page 57 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer have been performed by Mr. Lin Shengxiong. With Mr. Lin's extensive experience in reinforced materials markets, he is responsible for the overall strategic planning and business development of the Group. The Board considers that vesting both of the roles of Chairman and Chief Executive Officer with Mr. Lin is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals. The Board currently comprises 4 executive Directors and 3 independent non-executive Directors and therefore has a strong independence element in its composition.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than normal statutory compensation.

Each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company for a specific term. Such term is subject to his re-appointment by the Company at an annual general meeting (the "AGM") upon retirement. The articles of association of the Company provide that any Director appointed by the Board, (i) to fill a casual vacancy in the Board, shall hold office only until the next following general meeting of the Company and shall be subject to re-election at such meeting and (ii) as an addition to the Board shall hold office until the next AGM of the Company and shall then be eligible for re-election.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES OF THE DIRECTORS

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including the non-executive Director and the 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. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interest and serving on Board committees, all non-executive Directors (including the independent non-executive Directors) make various contributions to the effective direction of the Company.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

All Directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

The Directors shall disclose to the Company details of other offices held by them.

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.

The Board has clearly set out the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Board regularly reviews the above said circumstances and ensures they remain appropriate.

If any Substantial Shareholder or Director has a potential conflict of interest in a matter to be considered by a general meeting or the Board, the relevant Directors shall abstain from voting and a Board meeting attended by independent non-executive Directors who have no material interest in the matter shall be held to discuss and vote on the same. Save as disclosed above, there are no relationships (including financial, business, family or other material/ relevant relationship(s)) among the Board members.

CORPORATE GOVERNANCE REPORT

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2021, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors (the "INED(s)") play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. In particular, they bring an impartial view to bear on issues of the Company's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board.

The Board also considers that the INEDs can provide independent advice on the Company's business strategy, results and management so that all interests of shareholders can be taken into account, and the interests of the Company and its shareholders can be protected.

All of the INEDs are appointed for a term of 3 years and are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

During the year of 2021, the Board at all times met the requirements of Rule 3.10(1) and Rule 3.10(2) of the Listing Rules relating to the appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications, or accounting or related financial management expertise. In compliance with Rule 3.10A of the Listing Rules, the INEDs represented at least one-third of the Board throughout the year ended 31 December 2021.

The Company has received an annual written confirmation from each INED of his independence pursuant to the requirements of Rule 3.13 of the Listing Rules, which confirmed to the Company that he has met the independence guidelines set out in the Listing Rules. And the Company also considers that they are independent.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Company adopted a Board Diversity Policy (the “Diversity Policy”) which became effective in September 2013. The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members’ selection process, including but not limited to gender, age, culture and education, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are based on merits, and the selection of candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Nomination committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness from time to time, and propose to the Board for amendments when necessary.

DIRECTORS’ TRAINING AND PROFESSIONAL DEVELOPMENT

Each newly appointed Director receives an induction package from the Company’s legal advisor on the first occasion of his/her appointment. This induction package is a comprehensive, formal and tailored induction of the responsibilities and on-going obligations to be performed by a director pursuant to the Companies Ordinance, Listing Rules and Securities and Futures Ordinance.

During the year, all the Directors had reviewed the regular business and financial updates and other reading materials concerning latest developments in corporate governance practices and relevant legal and regulatory developments, that provided to them by the Company. Besides, the Company will arrange and fund suitable training for directors in order to develop and refresh their knowledge and skills.

Executive directors

Mr. Lin Shengxiong	B,C
Mr. Huang Wanneng	B,C
Mr. Jiang Shisheng	B,C
Mr. Liu Jun	B,C

Independent non-executive directors

Mr. Lau Chun Pong	A,B,C
Mr. Lu Jiayu	B,C
Ms. Jiang Ping	B,C

- A: attending seminars/meetings/forums/conferences/courses/workshops organized by professional bodies or regulatory bodies
- B: reading journals/newsletters/seminar materials/publications/magazines
- C: reading memoranda issued or materials provided by the Company

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS/GENERAL MEETINGS

The Board meets regularly to discuss the overall strategy as well as operation and financial performance of the Group, and to review and approve the Group's annual and interim results and other matters. Notice, agenda and Board papers of Board and committee meetings are served to all Directors prior to the meeting in accordance with the Company's Articles of Association and the CG Code requirement (except under emergency situation). Extraordinary and Annual General Meeting schedules and draft agenda are made available to the Directors in advance. Details of attendance of Directors at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Extraordinary and Annual General Meeting are set out in the table below:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Number of meetings held for the year ended 31 December 2021	4	2	2	2	1
<i>Executive Directors</i>					
Mr. Lin Shengxiong	4	N/A	2	N/A	1
Mr. Huang Wanneng	4	N/A	N/A	N/A	1
Mr. Jiang Shisheng	4	N/A	N/A	N/A	1
Mr. Liu Jun (appointed on 16 December 2021)	N/A	N/A	N/A	N/A	N/A
<i>Independent non-executive Directors</i>					
Mr. Lau Chun Pong	4	2	2	2	1
Mr. Lu Jiayu	4	2	2	2	1
Ms. Jiang Ping	4	2	2	2	1

All Directors are provided with notice and agenda of meeting at least 14 days in advance, while relevant materials relating to the matters brought before the meetings at least three days in advance. All Directors have access to the relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have access to the advice and services of our Company Secretary, who is responsible for providing Directors with Board papers and related materials and ensuring that Board procedures are followed. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Reasonable notices of Board meetings are given to the Directors and Board procedures complied with the Articles of Association of the Company, as well as relevant rules and regulations.

CORPORATE GOVERNANCE REPORT

CONFLICT OF INTEREST

If a Director has a conflict of interest in relation to a transaction or proposal to be considered by the Board, such Director is required to declare his interest and to abstain from voting. The matter is considered at a Board meeting attended by Directors who have no material interest in the transaction.

BOARD COMMITTEES

The Board has established Audit Committee, Remuneration Committee and Nomination Committee (collectively "Board Committees") with defined terms of reference. The terms of reference of the Board Committees are available upon request. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs, namely Mr. Lau Chun Pong (Chairman), Mr. Lu Jiayu and Ms. Jiang Ping. No member of Audit Committee is a member or existing auditor of the Company.

The Audit Committee was responsible for, amongst other things, overseeing the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of the system of internal control and risk management of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations. The full terms of reference setting out details of duties of the Audit Committee is available on the Company's website.

The Audit Committee is satisfied with their review of the auditors' remuneration, the independence of the auditor, ZHONGHUI ANDA CPA Limited, and recommended the Board to re-appoint ZHONGHUI ANDA CPA Limited as the Company's auditor in the financial year ending 31 December 2021, which is subject to the approval of shareholders at the forthcoming AGM. The Audit Committee has reviewed the Group's interim and annual consolidated financial statements and reports for the year of 2021, risk management and internal control system of the Group.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year. Details of the number of Audit Committee meetings held and Directors' attendance are set out in the section headed "BOARD MEETINGS/GENERAL MEETINGS" on page 27 of this annual report.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee comprises three INEDs, namely Mr. Lu Jiayu (Chairman), Mr. Lau Chun Pong and Ms. Jiang Ping and one executive Director, namely Mr. Lin Shenxiong.

The primary duties of the Remuneration Committee include (but not limited to): (a) ongoing review of the Group's overall remuneration policies and structure; (b) making recommendations to the Board on the administration of fair and transparent procedures for setting policies on the remuneration of directors and senior management; (c) reviewing and approving management's remuneration proposals with reference to the Board's corporate goals and objectives; and (d) reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office. The full terms of reference setting out details of duties of the Remuneration Committee is available on the Company's website.

The Remuneration Committee determines Directors' remuneration by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities, performance and the results of the Group in determining the exact level of remuneration for each Director.

Pursuant to the terms of reference of the Remuneration Committee, meeting shall be held at least once a year.

Details of the number of Remuneration Committee meetings held and Directors' attendance are set out in the section headed "BOARD MEETINGS/GENERAL MEETINGS" on page 27 of this annual report.

For the year ended 31 December 2021, the remuneration of members of senior management by band is set out below:

Band of remuneration	Number of Individual
Nil to RMB1,000,000	14

NOMINATION COMMITTEE

The Nomination Committee comprises three INEDs, namely Ms. Jiang Ping (Chairman), Mr. Lau Chun Pong and Mr. Lu Jiayu.

The primary duties of the Nomination Committee include (but not limited to): (a) Reviewing the Directors' overall performance; (b) Making recommendations to the Board on the administration of fair and transparent procedures for making policies on the selection of individuals nominated for directorship according to the nomination procedures; (c) Assessing the independence of independent non-executive Directors according to the requirements under the Listing Rules; and (d) Making recommendations to the Board on relevant matters related to the appointment or re-appointment of Directors and succession plan for Directors.

CORPORATE GOVERNANCE REPORT

NOMINATION POLICY

The Board has adopted the following policies for the nomination of directors.

Selection Criteria

In determining the suitability of a candidate, the Nomination Committee and the Board shall consider the potential contributions that a candidate can bring to the Board and/or the Group. The Nomination Committee would consider a candidate in terms of qualifications, skills, experience, independence and other factors. The following shows a non-exhaustive list of selection criteria:

- the candidate's race, reputation, character and integrity;
- the candidate's qualifications, skills, knowledge, business judgment and experience which are relevant to the operations of the Group;
- the relevant factors set out in the Board Diversity Policy (as amended from time to time);

Nomination Procedures

The evaluation, recommendation, nomination, selection and appointment or re-appointment of each proposed Director shall be assessed and considered by the Nomination Committee and the Board against the Selection Criteria and the Board Diversity Policy.

In the context of appointment of any proposed candidate to the Board:

- the Nomination Committee may take such measures that it considers appropriate in connection with its identification and evaluation of candidates, including referrals from the Directors, shareholders, management, advisors of the Company;
- the Nomination Committee shall identify and ascertain the character, qualification, knowledge and experience of the candidate and perform adequate due diligence in respect of such candidate; and
- the Nomination Committee shall make recommendations by submitting the candidate's personal profile to the Board for its consideration.

Board Diversity Policy

The Board has adopted the Board diversity policy. The Board aims to achieve the measurable objectives by, among others, striking for the appropriate balance of gender with reference to stakeholders' expectations. During 2021, the Board comprise 6 male and 1 female directors. Details of the Board diversity policy are set out in the section headed "BOARD DIVERSITY POLICY" on page 26 of this annual report.

CORPORATE GOVERNANCE REPORT

The full terms of reference setting out details of the authority, duties and responsibilities of the Nomination Committee is available on the Company's website. Pursuant to the terms of reference of the Nomination Committee, meeting shall be held at least once a year.

The Nomination Committee has reviewed the structure, size and composition of the Board and the Board diversity policy as well as discussing matters regarding the retirement and re-election of Directors.

Details of the number of Nomination Committee meetings held and Directors' attendance are set out in the section headed "BOARD MEETINGS/GENERAL MEETINGS" on page 27 of this annual report.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing its corporate governance duties as set out below:

- i Develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- ii Review and monitor the training and continuous professional development of Directors and senior management;
- iii Review and monitor the Company's policies and practices on compliance with all legal and regulatory requirements;
- iv Develop, review and monitor the code of conduct and compliance manual applicable to the employees and directors; and
- v Review the Company's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

During the year, the Board continued to adopt its Corporate Governance Handbook which is comprised of, inter alia, continuous disclosure policies, securities dealings policies, whistle-blowing policies, shareholders' communication policies as well as terms of reference of the board committees and the charter for internal audit.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES IN PREPARING THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibilities for preparing the financial statements of the Company and the Group for the year ended 31 December 2021.

The scope of work and responsibilities of ZHONGHUI ANDA CPA Limited, as the Company's external auditor, are stated in the section entitled "Independent Auditor's Report" in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognizes its responsibility to ensure the Company maintains a sound and effective risk management and internal control system. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal control is conducted by the internal audit department annually, covering major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. The last internal control review was conducted in 2021 and the internal audit department examined the internal control policies and measures for the year ended 31 December 2021.

The Group's risk management framework includes the following elements:

- identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business;
- develop necessary measures to manage those risks;
- monitor and review the effectiveness of such measures.

The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews periodically the Group's risk management systems.

CORPORATE GOVERNANCE REPORT

Audit committee reported to the Board the implementation of the Group's risk management and internal control policy which, among other things, included the determination of risk factors, evaluation of risk level the Group could take and effectiveness of risk management measures. Based on the review reports from the Group's internal control department and the Audit Committee, the Board concluded that the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG code.

The review of the risk management and internal control systems of the Group is an ongoing process and the Board maintain a continuing commitment to the Group's control environment and processes.

WHISTLEBLOWING POLICY FOR EMPLOYEES TO RAISE CONCERNS ABOUT POSSIBLE IMPROPRIETIES

The Company is committed to achieving and maintaining the highest standards of openness, probity and accountability. The Company's employees at all levels should conduct themselves with integrity, impartiality and honesty.

The Board has adopted a Whistleblowing Policy to govern and deal with fairly and properly concerns raised by the Company's employees about any suspected misconduct or malpractice regarding financial reporting, internal control or other matters within the Company.

The Audit Committee of the Company shall review regularly the policy and ensure that arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

LISTING RULES COMPLIANCE

Throughout the year, the Group has fully complied with the Listing Rules requirements. Financial Reports, announcements and circulars have been prepared and published in accordance with the requirements of the Listing Rules.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

Audit Committee of the Company reviews the terms of appointment of the external auditor each year. The review includes their independence, the scope of their audit, their audit fees, and the scope and professional fees for any non-audit services. For the year ended 31 December 2021, services provided to the Company by its external auditor and the respective fees paid were:

Services rendered	Fee paid/ payable <i>HK\$'000</i>
Audit of financial statements	1,580
Other non-audit services	
— Review of the 2021 interim results	190
	<hr/>
	1,770

COMPANY SECRETARY

The Company Secretary of the Company during the year was Mr. Chow Yiu Wah, Joseph ("Mr. Chow").

The biographical details of Mr. Chow, are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Mr. Chow took not less than 15 hours of relevant professional training during the year ended 31 December 2021 as required by the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with Shareholders and highly respects the Shareholders' right to express their view and appreciates their suggestions to the Company.

The Company uses a number of formal communication channels to deliver the information to Shareholders in a timely manner for assuring the Shareholders are kept well informed of the Company's key business imperatives. These include general meetings, interim and annual reports, various announcements and circulars. The Company's website offers a communication channel between the Company and the Shareholders as the website be updated with published information of the Group.

CORPORATE GOVERNANCE REPORT

VOTING BY POLL

AGM proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices. The notice of AGM is distributed to all shareholders at least 21 days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. 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. The procedures for demanding and conducting a poll are explained at the beginning of the meeting. Voting results are posted on our Group's website on the day of the AGM.

The Company will invite representatives of the external auditors to attend the AGM to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

SHAREHOLDERS' RIGHTS

1. Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to Article 58 of the Articles of Association of the Company extraordinary general meetings shall be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (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.

2. Procedures for Raising Enquiries

Shareholders may direct their queries about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, and its contact details are set out on page 2 of this annual report under the section headed "Corporate Information".

CORPORATE GOVERNANCE REPORT

3. Procedures for Putting Forward Proposals at Shareholders' Meetings

i. Proposal for Election of a Person Other than a Director as a Director:

According to Article 85 of the Articles of Association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder of the Company (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office of the Company in Hong Kong or at the Company's branch share registrar in Hong Kong provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

ii. Other Proposals:

If a shareholder wishes to make other proposals (the "Proposal(s)") at a general meeting, he/she may lodge a written request, duly signed, at the head office of the Company in Hong Kong marked for the attention of the Company Secretary of the Company. Details of the Company's head office are set out on page 2 of this annual report under the section headed "Corporate Information".

The identity of such shareholder and his/her request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the share registrar that the request is proper and in order, and is made by a shareholder of the Company, the Board will in its sole discretion decide whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

1. Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting of the Company;
2. Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting of the Company;
3. Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of an ordinary resolution in an extraordinary general meeting of the Company.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

The Company intends to strike a balance between maintaining sufficient capital to develop and operate the business of the Group and rewarding the shareholders of the Company. According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

- the Company's operating results, actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;
- the Group's liquidity position;
- general economic 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 factors that the Board may deem appropriate and relevant.

Such declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rule and regulations and the Articles of Association of the Company.

Any declaration and payment of future dividend under the dividend policy are subject to the Board's determination that the same would be in best interests of the Group and the Shareholders as a whole. The Board will review the dividend policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the dividend policy at any time as it deems fit and necessary.

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

CORPORATE GOVERNANCE REPORT

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Room 617, 6/F., Seapower Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong
(For the attention of the Board of Directors/Company Secretary)

Telephone: (852) 2477 3799

Fax: (852) 2477 9969

Email: ir@chinalongevity.hk

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2021, there was no change in the Memorandum and Articles of Association of the Company.

The amended and restated Memorandum and Articles of Association of the Company are available on the website of the Stock Exchange and the website of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

China Longevity Group Company Limited (the “Company”), together with its subsidiaries (collectively the “Group” or “we”), are pleased to publish our sixth Environmental, Social and Governance Report (“ESG Report” or “this Report”), which outlines the principles and sustainable development philosophy we uphold in fulfilling our corporate social responsibility, and describes our performance and responsibilities towards social responsibility.

Reporting guide

This report has been prepared in accordance with the ESG Reporting Guide (the “Guide”) set out in Appendix 27 of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited and the contents covered herein have met the requirements of the “Comply or Explain” provisions and the four reporting principles (materiality, quantitative, balance and consistency) set out in the Guide. An index to the Guide is included in the final chapter of this report to facilitate quick reference to the contents of this report. Readers may also refer to the “Corporate Governance Report” section in this Annual Report for a comprehensive understanding of the Group’s ESG performance.

Materiality	We have identified and disclosed in our report the processes and guidelines for key ESG issues. We have also identified and disclosed in our report our key stakeholders, and the process and outcomes of the stakeholder engagement.
Quantitative	We have disclosed the statistical criteria, methods, assumptions and/or calculation tools used for reporting key performance indicator, and the source of the conversion factors.
Balance	This report presents the Group’s performance for the reporting period in an unbiased manner, avoiding selections, omissions or formats of presentation that might improperly influence the decisions or judgements of the readers of the report.
Consistency	We use consistent statistical methods and if there are any changes to statistical methods or key performance indicators or any other relevant factors that affect the meaningful comparisons, we will clarify in the ESG report.

Scope of the report

This report describes the Group’s policies, measures and key performance indicator (“KPI”) for sustainable development in relation to its core business for the period from 1 January 2021 to 31 December 2021 (hereinafter referred to as the “Year” or the “Reporting Period”). Unless otherwise stated, this report covers the businesses under the Group’s direct control and collects data from its 2 principal subsidiaries, Fujian Sijia Industrial Material Co., Ltd. and Sijia New Material (Shanghai) Co., Ltd. (the “Major Production Bases”) to assess the KPI in the environmental aspect.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Reporting language

This report is published in both Traditional Chinese and English. In case of discrepancies, please refer to the Traditional Chinese version.

Approval of the Report

This report was confirmed by management and adopted by the Board of Directors on 30 March 2022.

Feedback

We value your views on this report and should you have any enquiries or suggestions, please contact us by email at: ir@chinalongevity.hk.

2. SUSTAINABLE DEVELOPMENT STRATEGY

The principal activities of the Group are sales of functional polymer environmental protection materials and ecological building materials products in the PRC. We are actively engaged in social responsibility and value the impact of our operations on society and the environment, and promote the continuous improvement of our ESG level to create sustainable value for our stakeholders.

2.1 Board Statement

We believe that a robust and sustainable governance structure is essential to our corporate development. The Group considers ESG management as part of our responsibility. The Board, as the Group's most important leadership role, is ultimately responsible for ESG matters. Its main responsibilities are to oversee ESG risks, review ESG strategies, issues, risk management and performance, and regularly review the progress of our environmental objectives to ensure that the management approach effectively establishes the framework for the Group's sustainable development. At the same time, the Board will continue to identify, prioritise and validate key ESG issues in line with the Group's policies, business directions and the relevant concerns of stakeholders, and review the Group's own ESG strategic planning and performance as appropriate, with a view to integrating sustainability into our daily operations and working towards sustainable development in all aspects of our operations.

2.2 Sustainable Development Governance

We realize that the establishment of a complete ESG structure is an important step for the Group to implement its ESG practice. The Board has appointed the management of the Group to establish the Group's sustainability strategies, policies and measures, and monitor the compliance of laws and regulations by the ESG works in the locations where it operates. Management also formulates ESG-related policies, measures and practices for the Group's day-to-day operations and reports directly to the Board on the progress of ESG works. Each division of the Group also implements appropriate sustainable governance measures in accordance with actual needs and relevant laws to ensure that ESG policies and measures are integrated into our business operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.3 Stakeholder Engagement

The Group attach great importance to the views of our stakeholders. We maintain regular communication with them through a wide range of channels to understand their concerns and expectations so as to help us formulate the Group's sustainable development strategy to continuously improve our ESG performance. During the Year, we reached out to stakeholders from different sectors, including customers, employees, shareholders and investors, business partners, suppliers, regulators and the media.

Stakeholders	Communication channels
Customers	<ul style="list-style-type: none">• WeChat• Email• Daily operation/communications• Site visit by customer relationship managers• Phone call
Employees	<ul style="list-style-type: none">• Quarterly rationalization recommendation questionnaire• Project improvement• Performance evaluation• Meetings and interview• Employee suggestion box• Employee opinion survey• Employee communication conferences• Business briefing
Shareholders and Investors	<ul style="list-style-type: none">• Annual general meetings• Investors meetings• Interim reports and annual reports• Corporate communications• Announcement of results
Business Partners	<ul style="list-style-type: none">• Visits• Meetings
Suppliers	<ul style="list-style-type: none">• Management process for suppliers• Site inspection
Regulators	<ul style="list-style-type: none">• Written response to public consultation• Compliance report
Media	<ul style="list-style-type: none">• Announcement of results• Senior management visits

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.4 Materiality Assessment

In order to further identify the key areas of ESG practice and disclosure of the company, our reference focused on the disclosure obligations under the Guide issued by the Stock Exchange, the Materiality Map issued by the Sustainability Accounting Standards Board (SASB) and the ESG issues of concern to our peers, and finally identified 26 materiality issues applicable to the Group's business, 16 of which are topics of high materiality, 5 are topics of moderate materiality and 5 are topics of materiality. The following issues are highlighted in this report to reflect our contribution to the ESG work.

Topics of high materiality

- Compliance with laws and regulations
- Data security
- Supply Chain Management
- Customer Service
- Product liability
- Market competitiveness
- Product design and life cycle
- Labour practice
- Prevention of child labour and forced labour
- Employee Health and Safety
- Staff Development and Training
- Water consumption and efficiency
- Waste management
- Energy consumption and efficiency
- Emissions Management
- Use of resources

Topics of moderate materiality

- Anti-corruption
- Reporting mechanisms
- Business ethics
- Intellectual property protection
- Staff benefits

Topics of materiality

- Promotion and product service labels
- Staff engagement diversity and inclusion
- Greenhouse gas emissions
- Climate change
- Caring for community

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. COMPLIANCE

We are committed to the sustainable development of the Group and have put in place appropriate and effective internal control and risk management systems to continuously enhance the corporate image of the Group and the investment value of our stakeholders throughout our operations, with compliance as the foundation for the stable development of our business. During the reporting period, the Group was not aware of any material breach of relevant laws and regulations.

3.1 Operations Integrity

The Group is committed to the principles of integrity and honesty and strictly complies with national anti-corruption laws and regulations, including but not limited to the Supervision Law of the People's Republic of China, the Company Law of the People's Republic of China, the Criminal Law of the People's Republic of China, and the Anti-Money Laundering Law of the People's Republic of China, in order to maintain our core values of integrity and honesty and to establish a business operation without corruption and breach of law.

The Group is committed to maintaining a high level of ethical standards by establishing an internal code of conduct and requiring strict compliance by employees in all departments. We regularly organise different anti-bribery trainings with the aim of strengthening the prevention against employees' illegal and undisciplined acts such as seeking improper benefits. During the reporting period, we have provided anti-corruption trainings to our directors and staff, including the issuance of a "Practical Guide to Integrity for Directors" to our directors, a management manual on honesty to our management staffs and a study of Prevention of Bribery Ordinance of Hong Kong by our staff.

In addition, an anti-corruption complaint channel is in place to encourage employees, customers, suppliers and other stakeholders associated with our business to report any suspicions of bribery or improper behaviour while keeping the identity of whistleblowers confidential. If irregularities are found, we accept accountability to the person concerned in an open and rational manner.

During the reporting period, we have not received any new litigation or discovered any cases of corruption, bribery, extortion, fraud and money laundering against the Group or its employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.2 Information Security Management

We are fully aware that information security is crucial to the Group's long-term business development and corporate reputation. Therefore, the Group strictly complies with the "Law of the People's Republic of China on Guarding State Secrets" and the "Implementation Regulations of the Law of the People's Republic of China on Guarding State Secrets" and other laws and regulations related to information security, and is committed to safeguarding the privacy of our customers. In view of this, we have established a code of conduct for our business operations and services to strictly regulate the professional conduct and work procedures of our staff in handling customer data, and to transfer the responsibility to respect customer privacy and handle the Group's data properly. We restrict staff access and rights to customer data and Group data. Our staff will only access customer and Group data with authorisation to minimise the risk of leakage of confidential information.

In terms of business information disclosure, the Group strictly abides by the Advertising Law of the People's Republic of China, Patent Law of the People's Republic of China, Implementation Rules for Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China and other laws and regulations. The Group is also aware of its obligations under the Securities and Futures Ordinance Chapter 571 of the Laws of Hong Kong and the Main Board Listing Rules, of which the overall principle is that the inside information must be announced immediately after a decision is made. We are careful in handling the release of inside information, advertising, labelling and related matters, and strictly prohibit fraudulent use of false and misleading product descriptions, to ensure the delivery of complete and true information to the public in an appropriate manner.

Respect for intellectual property

In addition, the Group respects intellectual property and we require our employees not to own or use copyrighted material without the permission of the copyright owner. The above rights include intellectual property rights, legal patent rights, trademark rights and copyright. We regard data management and respect for intellectual property rights as basic professional conduct for our employees, and if we find any violation by our employees, we will take disciplinary action as appropriate. In addition, we closely monitor the market for any infringements to prevent those behaviours from happening, such as counterfeit trademarks, to ensure that our intellectual property rights are not infringed.

During the reporting period, the Group was not aware of any legal or regulatory issues that violated the health and safety, advertising, labelling and privacy of products and services and had a material impact on the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.3 Supply Chain Management

A sustainable supply chain is a key element in maintaining the Group's stable business development and fostering our partnership with our suppliers. In addition, we also strictly comply with national laws and regulations, such as the Law of the People's Republic of China on Tendering and Bidding, the Implementation Regulations of the Law of the People's Republic of China on Tendering and Bidding and other laws and regulations, in the hope that our suppliers and business partners will cooperate with us in fulfilling our social responsibility and building a long-term and stable relationship.

To effectively monitor the sustainability performance of our suppliers and their social responsibility, we have put in place a standardised procurement and tendering process to carefully assess all potential suppliers to minimise the environmental and social risks involved in our supply chain. In selecting suppliers, we not only assess their service performance and product quality, but also consider their environmental certifications for final selection. On the social aspect, we require our suppliers to prohibit child labour and forced labour, and to provide a healthy and safe working environment for their employees. On the environmental aspect, we encourage our suppliers to make efforts to protect the environment and the environmental impact of their operations, and promote practices such as environmental-friendly sourcing. On the governance aspect, we require suppliers to comply with the laws and regulations of all locations in which they operate and prohibit any unethical practices such as corruption and bribery. Meanwhile, to ensure the stability of our supply chain, we have also established a comprehensive supply chain tracking system to closely monitor the sources of supply, channels, quality and follow-up services of our products and services.

The Group's procurement management department is responsible for preparing and implementing tender procurement plans, specifying the criteria for supplier selection and conducting regular evaluations against the criteria to ensure that suppliers meet the Group's operational objectives, business development and management needs. If a supplier's performance is found to be unable to meet the terms of the contract, the Group will review the supplier and terminate their cooperation.

During the reporting period, the Group had 286 major suppliers, all of which were from China. Their distribution by region is as follows:

Region	Number of suppliers
Northeast China	5
South China	30
Hong Kong, Macao and Taiwan	2
Central China	7
North China	4
Southwest China	1
East China	237

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. QUALITY PRODUCT SERVICE

4.1 Customer Service

We uphold our “customer-oriented” philosophy and attach great importance to their opinion. We have a comprehensive plan to handle customer enquiries, complaints and after-sales services. We have set up a customer channel to proactively collect their feedback, enquiries and complaints, and regularly arrange meetings or telephone interviews with our sales staff to fully meet our customers’ needs and expectations. If a complaint is received and a product recall is required, we will immediately follow up on the matter, communicate with the affected customer to investigate and provide possible remedial measures. We will also conduct a comprehensive analysis of customer feedback, examine the cause of the complaint, discuss practical remedial measures and continuously improve our services to prevent similar situations from happening again.

During the Year, the Group did not receive any substantial complaints about its products and services.

4.2 Responsible Marketing

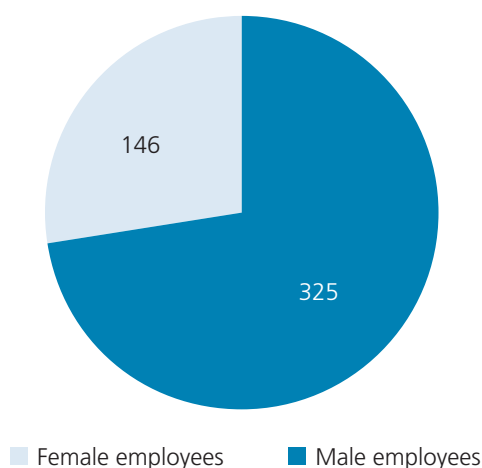
The quality of our products is fundamental to the Group’s brand reputation and the stable development of our business. Therefore, we always pay attention to the quality, health and safety of the products and services we sell, strictly control the quality of our products and strive to satisfy the needs of our customers. We strictly comply with the Product Quality Law of the People’s Republic of China, the Law of the People’s Republic of China on the Protection of Consumer Rights and Interests and other laws and regulations related to product responsibility. To ensure the good quality of our products, we conduct regular quality sampling tests to ensure that the products and services we sell meet the safety and health regulations. During the year, the Group did not have any cases of product recalls due to safety and health reasons.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

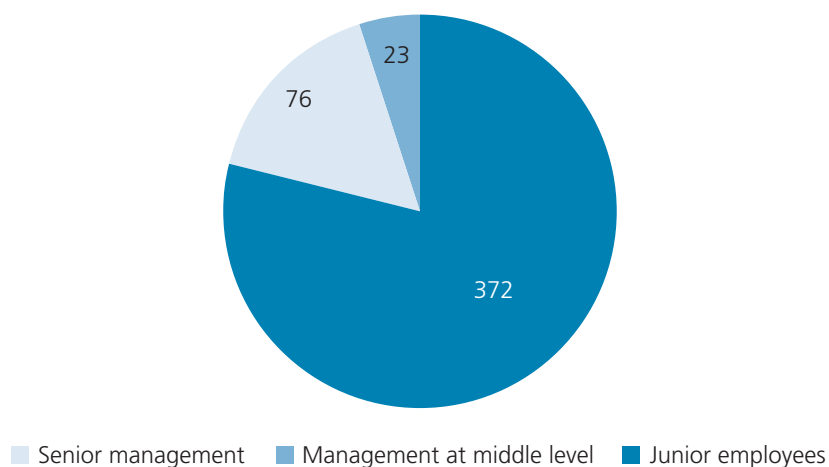
5. HELPING EMPLOYEE GROW

Solid human resources lay the foundation for the continuous development of the Group. The Group insisted on putting human in its first place and is committed to building a harmonious and trusting employment relationship by respecting and protecting the legitimate rights and interests of each and every employee. As at 31 December 2021, the Group have 471 employees in total of whom 468 are based in mainland China, and 3 are based in Hong Kong, Macao and Taiwan and overseas¹. The following chart illustrates the percentage of employees by gender, employment type and age group

Total number of employees by gender



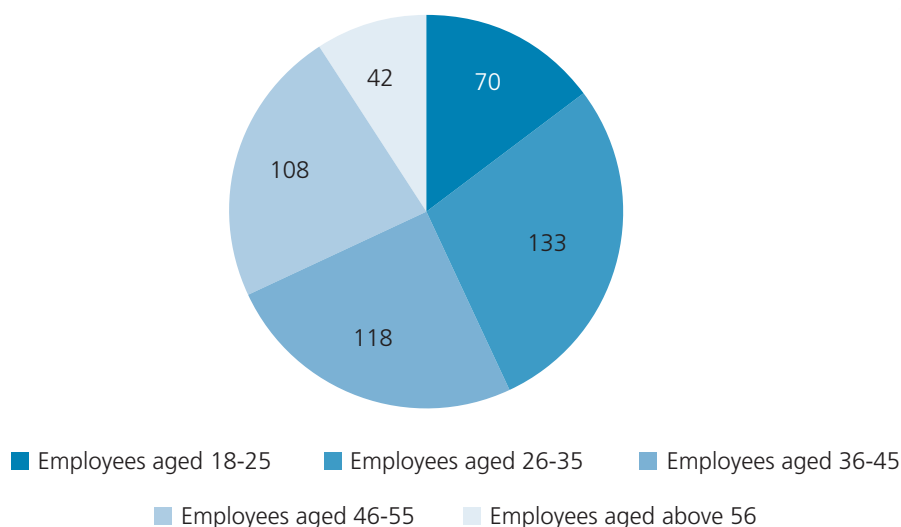
Total number of employees by employment type²



1. Calculated based on actual working locations
2. The Group did not employ part-time staff during the year

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Total number of employees by age group



5.1 Compliance Employment

The Group strictly complies with Labour Law of the People’s Republic of China, the Labour Contract Law, Law on the Protection of Minors and the Prohibition of Using Child Labour and other laws and regulations related to labour and employment in order to achieve fair recruitment and establish a fair, democratic, competitive and merit-based selection system. We have established a sound human resources management policy with a fair and equitable recruitment process to meet the current and future needs of the Group. Preference is given to educational background and work experience of the candidates, and candidates’ chances of employment are not affected by their nationality, race, colour, religion, age, gender, political affiliation, sexual orientation, disability, family status and other legally protected categories. The Group regards diversity and inclusion of employees as an important element of its human resources management policy. We have adopted a policy of diversity in board composition by taking into account a number of factors, such as gender, age, culture, education, professional background and skills, knowledge, experience and other requirements for selection, in order to demonstrate as a reference for the Group’s staff recruitment with a diverse board of directors.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We sign a legally binding labour contract with each employee, protecting the rights and responsibilities of both employers and employees, including the number of regular working hours, in order to avoid overworking. During the recruitment process, the administration and human resources departments are responsible for verifying the identity documents of candidates to prevent the employment of child labour. In addition, we respect the decision of our employees whenever they choose to resign or stay with us and follow the Group's internal operating procedures and relevant national regulations to handle the departure of employees when they leave the Group. We will understand the reasons behind their resignation and continuously optimise the Group's operational mechanism. In addition, the Group ensures that employees are given fair and equal consideration in recruitment, training, promotion, resignation, termination of employment, working hours and leave, benefits and remuneration, and prohibits any discrimination against employees. The Group will take disciplinary action if any irregularities are found.

During the reporting period, the Group did not violate any laws and regulations relating to remuneration and dismissal, recruitment and promotion, working hours, equal opportunities, diversity, anti-discrimination, etc., and there was no case of non-compliance in relation to employment, using of child labour or forced labour.

5.2 Health and Safety

The occupational safety and health of our employees is one of the primary concerns of the Group. We strictly abide by the Law of the People's Republic of China on the Prevention and Control of Occupational Disease, the Production Safety Law of the People's Republic of China, the Fire Production Regulation of the People's Republic of China, Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents, Regulations on the Supervision and Administration of Occupational Health in the Workplace, the Regulation on Work-Related Injury Insurance, and other laws and regulations, and make every effort to establish a safe and healthy workplace environment

As such, we have also introduced a smoke-free workplace policy which prohibits smoking in the Group's workplace and provides necessary protective equipment to our employees. For occupational safety, we provide professional safety skills training to employees in different departments and positions to enhance their awareness of occupational safety. The training covers safety regulations, possible hazards in the workplace and emergency response measures, updates on occupational safety information to all employees and enhances occupational and health education. We have also established a safety incident notification mechanism through which employees can report potential hazards for the company to investigate and make improvement arrangements.

During the reporting period, the Group was not involved in any breach of any relevant laws and regulations relating to the provision of a safe working environment and the protection of employees from occupational hazards, nor did it receive any lost of work days due to work-related injuries or have any cases of death of employees at work in the past three years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Prevention and control of the epidemic

In 2021, as the outbreak of COVID-19 continued to rage, the Group continued to strictly follow the decision of the State Council of the PRC for prevention and control of the epidemic to cooperate with the national epidemic prevention and control efforts in order to reduce the spread of the epidemic and protect the health of our staff. During the epidemic, the Group conducted regular cleaning and disinfection of the Major Production Bases and implemented remote video conferencing to reduce non-essential overseas business trips. In addition, we also strengthened the implementation, monitoring and reporting procedures of our daily epidemic prevention measures to provide a hygienic and safe working environment to alleviate staff's concerns about working under the epidemic. The Group also reminds staff from time to time to maintain an appropriate social distance and to reduce the number of gathering or places where people gather.

5.3 Development and Training

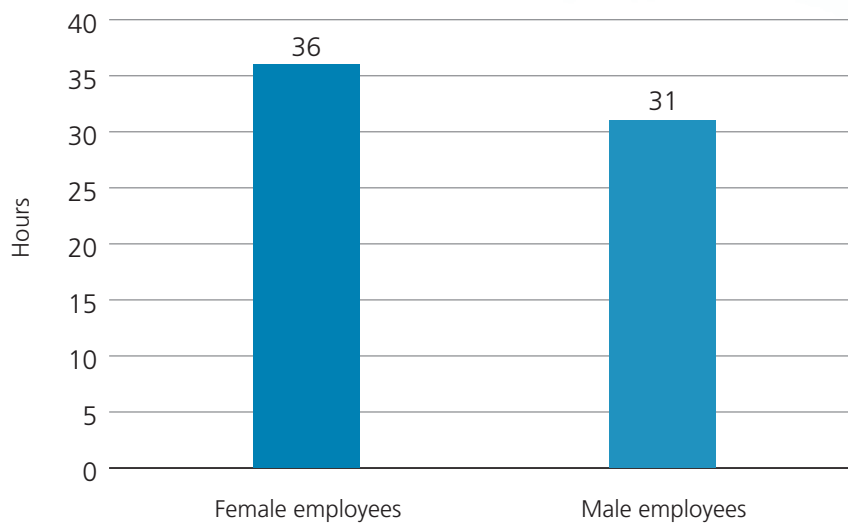
The Group cares for and values the professional training and development of its staff. Each year, we tailor-make a series of training programmes and plans according to our business needs and the performance of our staff. We will also standardise and promote systematic training to provide career development opportunities for staff in different positions.

We also regularly invite different professional organizations to provide professional and diversified training courses for our staff to learn more about relevant laws and regulations, product knowledge and the latest development of the industry. In addition, we actively encourage our staff to pursue continuous learning and further education to enhance their professional skills and competitiveness. We support them to attend seminars, sharing sessions and courses organised by professional organizations through various incentives such as examination leave and cash subsidies.

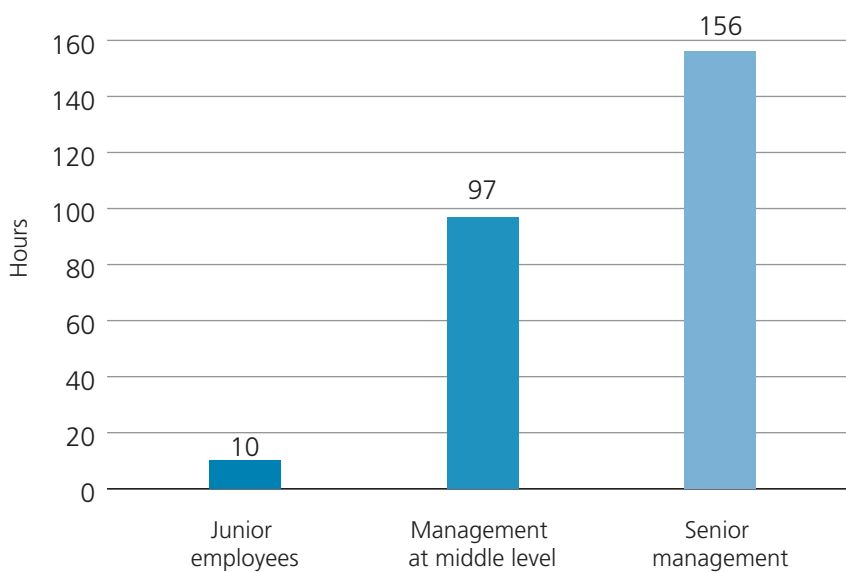
During the reporting period, all employees of the Group received various types of training. For the percentage of staff training by gender³, the percentage of training for both male staff and female staff was 100%; for the percentage of staff training by employment type², the percentage of training for junior staff, intermediate management and senior management was 100%. The following table show the average number of hours of training for employees by gender and employment type.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Average training hours of employees by gender



Average training hours of employees type³



3. Calculation method: number of trained employees of such category/total number of trained employees

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5.4 Welfare

In order to attract and retain talents, the Group offers competitive salaries and generous benefits to its employees. The Group has established a Remuneration Committee and a comprehensive remuneration system. We set reasonable remuneration for our employees with reference to the labour market rates and the internal conditions of the Group. We provide regular salary and benefit adjustments to retain talent, such as salary and position adjustments through staff appraisals, annual reviews of salary structures. We also provide bonuses and long service awards to individual employees as appreciation to their contributions to the Group.

In addition, we also provide retirement benefits to all eligible employees in accordance with national laws and regulations, with an aim of providing various aspects of social security, including basic medical insurance, basic endowment insurance, unemployment insurance, work injury insurance, maternity insurance and a housing provident fund. At the same time, our employees are also entitled to statutory holidays, sick leave and annual leave.

During the reporting period, the Group was not aware of any breaches of laws and regulations relating to leave and other benefits entitlements that would have a material impact on the Group.

6. PRACTICING ENVIRONMENTAL CONCEPTS

As an environmentally responsible enterprise, the Group actively implements energy saving and environmental protection measures with the aim of mitigating the impact of our operations on the environment. Therefore, the Group strictly abides by the environmental laws and regulations, including the Environmental Protection Law of the People's Republic of China, the Atmospheric Pollution Prevention and Control Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste. During the reporting year, the Group was not aware of any cases of non-compliance with environmental protection laws and regulations.

We are aware of our responsibility to protect the environment. We have therefore integrated environmental considerations into our business operations and have initially set ourselves the following directional goals.

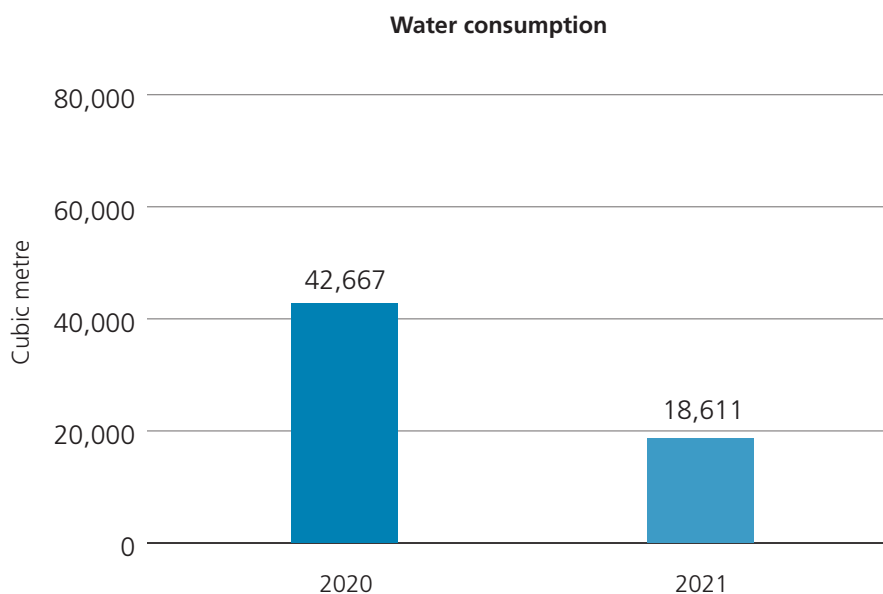
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Targets

Greenhouse gas emissions	Maintain or gradually reduce total greenhouse gas emissions from 2020 by actively implementing and executing the Group's energy conservation measures.
Energy use efficiency	Maintain or gradually reduce total electricity consumption from 2020 by actively implementing and executing the Group's energy conservation measures.
Water use efficiency	Maintain or gradually reduce total water consumption from 2020 by actively implementing and executing the Group's water conservation measures.
Waste reduction	Maintain or gradually reduce total amount of waste generated from 2020 by actively implementing and executing the Group's material conservation measures.

6.1 Water Resources Management

The Group treasures every drop of water and our water supply is mainly from the local municipal water supply system. During the reporting period, we did not encounter any problems with access to water. During the reporting period, the Major Production Bases used 18,611 cubic metres of water in total during the course of their operations, with a water consumption intensity of 0.036 cubic metres, representing a decrease of 56.38% as compared to 42,667 cubic metres in 2020 and 18,611 cubic metres in 2021. The Group's water consumption for the past two years is as follows:

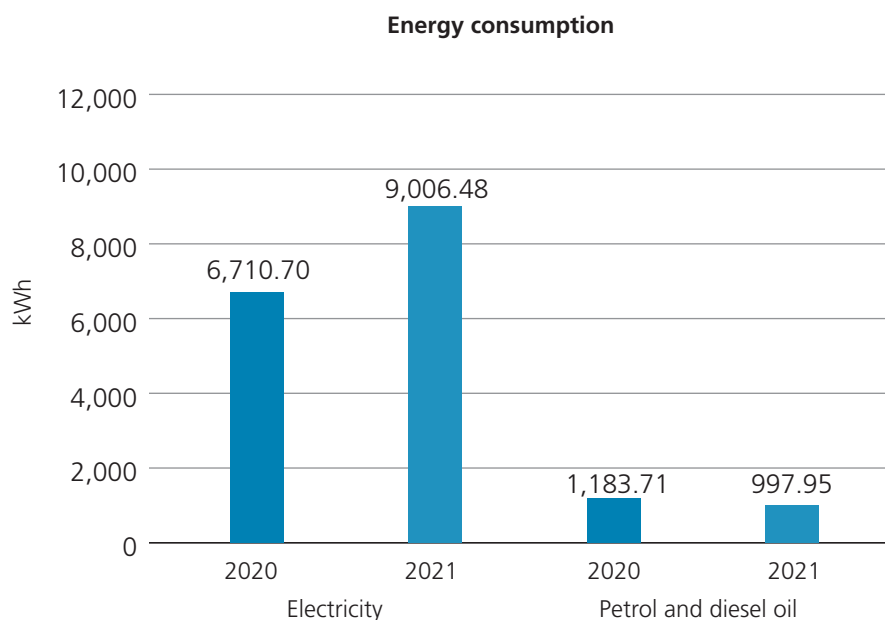


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We take various measures to avoid wastage of water, including regular leak testing of concealed water pipes and maintenance work to ensure that our water-using facilities perform at their best. We also promote the awareness of water conservation among our staff by putting up posters on the culture of water conservation and reminding them to keep their taps tight.

6.2 Energy Consumption

The Group's energy consumption is mainly due to the environmental impact of our daily operations. During the reporting period, the energy consumption of the Major Production Bases in the course of their operations was as follows: (1) The total electricity consumption was 9,006.48kWh, and electricity consumption intensity was 0.002kWh per thousand RMB revenue, representing an increase of 34.31% as compared to that of last year due to significant increase in output in 2021; In particular, the electricity consumption in 2020 was 6,710.70kWh. (2) The total petrol and diesel consumption was 997.95kWh, and consumption intensity was 0.0008kWh per thousand RMB revenue, representing a decrease of 15.69% as compared to that of last year; in particular, the total petrol and diesel consumption in 2020 was 1,183.71kWh. The Group's energy consumption for the past two years was as follows:



We understand that energy consumption is closely linked to greenhouse gas emissions and have therefore implemented green office initiatives to improve our energy management. We promote an energy-saving office culture and encourage staff to turn off all unnecessary lighting systems and other electronic equipment such as printers and computers to avoid idle appliances. We have also installed individually controllable light switches in different areas of the office and use daylighting whenever possible to save energy. For air-conditioning, we also adjust the temperature to suit the actual needs and allow staff to wear light clothing to work without affecting the corporate image of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6.3 Waste Management

The Group encourages employees to participate in waste disposal and encourages them to recycle in the workplace. To avoid wastage of resources, we regularly take stock of the Main Production Bases to ensure that they are used according to actual needs. We understand the importance of waste reduction at source and therefore encourage our staff to replace non-essential paper documents with electronic documents, reuse office stationery and avoid using non-recyclable items, etc. When disposing wastes, we strictly comply with the relevant laws and regulations and arrange for hazardous waste to be collected from qualified recyclers, such as waste batteries, computers and waste ink cartridges. In terms of paper usage, we encourage our staff to improve paper usage efficiency, such as printing in double-sided and ink-saving modes and reusing recycled paper. At the same time, we also put up reminders in prominent places on our printers to remind our staff of the importance of saving paper.

During the reporting period, empty oil barrels generated during the production of the Major Production Bases amounted to 7.92 tonnes, which was transhipped by designated third parties. Domestic wastewater generated amounted to 1,500 tonnes, which was discharged upon treatment by municipal pipeline.

6.4 Greenhouse Gas Emissions

The Group implements best practices to protect the environment. Our operations do not involve significant impact on the environment and natural resources and our greenhouse gas (GHG) emissions are mainly from electricity consumption from the Major Production Bases and company vehicle emissions. We conducted a GHG assessment for the Major Production Bases, in accordance with the Greenhouse Gas Protocol developed by the World Resources Institute and the World Business Council for Sustainable Development and ISO 14064-1 as defined by the International Organization for Standardization. A summary of GHG emissions for the reporting period is as follows:

GHG emissions performance⁴	Unit	2021
GHG – Sulfur dioxide emissions (Scope 1)	tonnes CO ₂ e	0.018 tonnes, 0.0407 tonnes per RMB10 million revenue
GHG – Nitrogen oxide emissions (Scope 2)	tonnes CO ₂ e	0.095 tonnes, 0.0297 tonnes per RMB10 million revenue
GHG – Total non-methane hydrocarbon emissions (Scope 1 and 2)	tonnes CO ₂ e	2.6629 tonnes, 0.0694 tonnes per RMB10 million revenue
GHG emission intensity	tonnes CO ₂ e	0.0549 tonnes per RMB10 million revenue

4. Calculated using the emission factors in the Stock Exchange's Appendix II "Guidelines on Reporting of Environmental Key Performance Indicators", subject to rounding.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Scope 1: The GHG emissions generated from sources owned and controlled by the Group, including the use of fuel in the Group's vehicles.
- Scope 2: GHG emissions generated by electricity generation, heating and cooling or steam purchased by the Group, including the use of electricity in the Group's operations.

GHG and air generated by us are mainly from indirect emissions from the use of purchased electricity in our operations and direct emissions from the use of petrol in our vehicles. During the reporting period, due to the use of natural gas in the Main Production Bases, the total GHG emissions amounted to 2.7759 tonnes, and the GHG emission density was 0.0549 tonnes per RMB10 million revenue, representing a decrease of 83.17% as compared to that of last year.

We are actively strengthening our GHG emission management, implementing energy saving measures in our daily operations, reducing electricity and vehicle fuel consumption, promoting low-carbon transport to our staff and encouraging them to use public transport whenever possible. Meanwhile, to improve the efficient use of fuel in vehicles, we also monitor the consumption of our vehicles and carry out regular inspections and maintenance to avoid unnecessary fuel consumption due to the deterioration of vehicle parts.

6.5 Responding to Climate Change

We understand that climate change will lead to extreme weather events, such as typhoons and heavy rain, which will ultimately threaten our business operations and lead to possible economic losses. As such, the Group has identified the acute physical risks posed by climate change and we continue to adopt the energy saving and environmental protection measures in this report to reduce energy consumption and regularly review the Group's environmental protection measures so as to ensure their effectiveness. In addition, when extreme weather events occur, we will strictly comply with the relevant extreme weather guidelines issued by the government, flexibly arrange the work schedule of our staff and discuss with our suppliers and logistics companies on emergency measures in extreme weather.

7. SOCIAL INVESTMENT

The Group recognises the importance of giving back to the community in order to promote social development. We strive to encourage our staff to voluntarily devote their time and skills, thereby giving them the opportunity to care for the community and strengthen the Group's corporate values. However, under the current COVID-19 epidemic, the Group has restricted staff activities and gatherings during the year to prevent outbreaks of epidemic among staff. The Group will continue to give back to the community in other ways in the future and will continue to focus on the economic and cultural development of the community, actively fulfilling its civic responsibility as a good enterprise and making a positive impact on society.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the Group is principally engaged in the design, development, manufacture and sale of (i) Material Products, and (ii) Building Material Products (formerly known as Flooring Products).

The activities of its principal subsidiaries are set out in note 44 to the consolidated financial statements.

BUSINESS REVIEW AND OUTLOOK

A review and outlook of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement and Management Discussion and Analysis respectively from pages 3 to 5 and pages 6 to 16.

RISK AND UNCERTAINTIES

Our Group's financial condition, results of operations and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The following are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Economic risks

- A severe or prolonged downturn of the global economy, especially with the outbreak of COVID-19.
- Fluctuations in foreign currency exchange rate, inflation and fluctuations of interest rates would adversely affect the customers' spending sentiment and the Group's profit margin.

Operational risks

- Failure to compete in the competitive environment which the Group operated in;
- Unable to keep pace with the technological advances in timely and cost-efficient manner; and

REPORT OF THE DIRECTORS

- Failure to attract, train, retain, and motivate highly skilled and qualified managerial, sales, marketing, operating, and technical personnel, the loss of key personnel, or the inability to find additional qualified personnel.

Compliance risks

- Failure to adhere to laws, regulations and rules, or to obtain or maintain all applicable permits and approvals;
- Infringement of valid patents, copyrights or other intellectual property rights held by third parties; and
- Any change in laws and regulations in different customers' and suppliers' countries.

Financial risks

- Details of financial risks are set out in note 6 to the consolidated financial statements.

The Board has reviewed the effectiveness of the Group's internal control and risk management systems covering economic, operational, compliance and financial risks of the Group and is satisfied that such systems are effective and adequate for the current operations of the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimize the impact of its activities on the environment, and compliance with applicable environmental laws. It is policy of the Group to promote clean operation and strives to making the most efficient use of resources in its operations, and minimizing wastes and emission. The Group achieves this through actively re-designing its activities and operation that encourage and promote recycling of resources, using environmental friendly raw materials and reviewing operations constantly to ensure that the processes are effective and efficient.

Please refer to the Environmental, Social and Governance Report contained in the Annual Report for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is dedicated to compliance with the requirements of relevant laws and regulations. Any failure to comply with such requirements may result in termination of the operation permit. The Group has allocated financial and human resources to ensure continuing compliance with the applicable rules and regulations and to maintain good working relationship with regulators through effective communications. During the year under review, the Group has complied with the Listing Rules, the Securities and Futures Ordinance, the Companies Ordinance, the Patent Law of the People's Republic of China, the Contract Law and the Labour Law of the People's Republic of China and other relevant laws and regulations.

REPORT OF THE DIRECTORS

The Board was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Group during the year.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Details of the key relationships between the Company and its employees are set out in the paragraph headed Human Resources in the section of Management Discussion And Analysis and Environmental, Social and Governance Report of this Annual Report.

The management of the Group understands the importance of maintaining a good relationship with its customers and suppliers for achieving its long term goals. Hence, the management of the Group would keep good communication and relationship with its customers and suppliers.

The Group will continue to enhance its customer service and deliver the excellent quality products to its customers. Simultaneously, the Group would expand its market segment to the international market.

The Group has established long term relationships with its major suppliers in order to ensure the sustainable suppliers for the business of the Group.

During the year, there were no material dispute between the Group and its customers and suppliers.

RESULTS AND APPROPRIATIONS

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 66.

The Board do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and note 37 to the consolidated financial statements.

The Company's reserves available for distribution represent the share premium, others reserves and retained profits under the Companies Law of the Cayman Islands. The share premium of the Company is available for paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can be distributed out of the share premium, others reserves and retained profits of the Company which in aggregate amounted to approximately RMB530.4 million (2020: RMB399.7 million) as at 31 December 2021.

REPORT OF THE DIRECTORS

FIVE YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 36 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings for the year ended 31 December 2021 are set out in note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under our Company's Articles of Association and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares for the year ended 31 December 2021.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 30.6% of the Group's total revenue and the sales attributable to the Group's largest customer were approximately 10.1% of the Group's revenue.

REPORT OF THE DIRECTORS

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 38.8% of the Group's total cost of sales and the purchases attributable to the Group's largest supplier were approximately 9.0% of the Group's total cost of sales.

None of the Directors, their 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 the Group's five largest customers and suppliers during the year.

DIRECTORS

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

Executive Directors

Mr. Lin Shengxiong (*Chairman*)
Mr. Huang Wanneng
Mr. Jiang Shisheng
Mr. Liu Jun (appointed on 16 December 2021)

Independent non-executive Directors

Mr. Lau Chun Pong
Mr. Lu Jiayu
Ms. Jiang Ping

In accordance with Article 84 of the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting at least once every three years.

The Company has received confirmation of independence in respect of the year ended 31 December 2021 from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Up to and as at the date of this report, the Company considers the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and the independent non-executive Directors has entered into a service contract with the Company for a term of 3 years unless terminated by either party giving not less than 3 months' notice to the other party.

None of the Directors has entered into any service contract with the Company which is not determinable within 1 year without payment of compensation, other than the statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the heading "Related Party Transactions" in note 42 to the consolidated financial statements, no contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company had engaged in any business or had any interest in business which competes or may constitute competition directly or indirectly with the business of the Group for the year ended 31 December 2021.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2021, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") of the Listing Rules were as follows:

(a) Long Positions in shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in the Company
Mr. Lin Shengxiong	Interests in controlled corporation (Note)	410,886,000 (Note)	48.19% (Note)
Mr. Huang Wanneng	Beneficial owner	5,060,000	0.59%

Note: As at 31 December 2021, Mr. Lin Shengxiong, through his 100% equity interest in Hopeland International Holdings Company Limited held 410,886,000 shares of the Company, representing approximately 48.19% of the entire issued share capital of the Company.

REPORT OF THE DIRECTORS

(b) Long positions in shares of the associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in the associated corporation
Mr. Lin Shengxiong	Hopeland International Holdings Company Limited	Beneficial owner	1	100.00%

SHARE OPTION SCHEME

The Company has adopted its share option scheme (the "Share Option Scheme") on 8 April 2010 to provide incentives to the employees, including any executive and non-executive Directors and officers of the Company and its subsidiaries, to contribute to the Group and to enable the Group to recruit high-calibre employees, to attract and retain human resources that are valuable to the Group. Pursuant to the Share Option Scheme, the Directors may, at their discretion, invite eligible participants including employees, executive and non-executive Directors, officers, agents or consultants of the Group to take up options to subscribe for the Company's shares subject to the terms and conditions stipulated therein. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for ten years from the date of its adoption.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares of the Company in issue on 29 April 2010, the date of completion of the global offering and capitalization issue. No options may be granted under the Share Option Scheme if this will result in such limit exceeded unless another shareholders' approval is obtained. The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue.

The exercise price must be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The Share Option Scheme had been expired since 7 April 2020 and there were no new scheme was introduced up to the date of this annual report.

As at 31 December 2021, there were no outstanding share options granted.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2021 was the Company, its subsidiaries or its associate a party to any arrangement to enable the Directors and chief executives of the Company or their spouses or children under the age of 18, to acquire benefits by means of acquisition of shares in, or debentures of the Company or its associated corporation.

Save as disclosed above and the section "Share Option Scheme", as at 31 December 2021, none of the Directors or the chief executive of the Company had or was deemed to have any interests in or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2021, the following persons or corporations, other than the interest disclosed above in respect of the directors, interest in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Section 336 of Part XV of the SFO:

Name of shareholder	Long/Short position	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in the Company
Hopeland International Holdings Company Limited (Note 1)	Long position	Beneficial owner	410,886,000	48.19%
Mr. Lin Shengxiong (Note 1)	Long position	Interests in controlled corporation	410,886,000	48.19%
Ms. Lin Hongting (Note 2)	Long position	Interests of spouse	410,886,000	48.19%
Glory Bright Investments Enterprise Limited (Note 3)	Long position	Beneficial owner	59,011,000	6.92%
Mr. Lin Wanpeng (Note 3)	Long position	Interests in controlled corporation	59,011,000	6.92%
Ms. Wang Huiqing (Note 4)	Long position	Interests of spouse	59,011,000	6.92%

REPORT OF THE DIRECTORS

Notes:

1. As at 31 December 2021, Mr. Lin Shengxiong through his 100% equity interest in Hopeland International Holdings Company Limited held 410,886,000 shares of the Company, representing approximately 48.19% of the entire issued share capital of the Company. Mr. Lin Shengxiong, is an executive Director of the Company.
2. As at 31 December 2021, Ms. Lin Hongting, the spouse of Mr. Lin Shengxiong is deemed to be interested in 410,886,000 shares of the Company, representing approximately 48.19% of the entire issued share capital of the Company.
3. Glory Bright Investments Enterprise Limited is beneficially owned by Mr. Lin Wanpeng. As at 31 December 2021, Mr. Lin Wanpeng is deemed to be interested in 59,011,000 shares of the Company, representing approximately 6.92% of the entire issued share capital of the Company.
4. As at 31 December 2021, Ms. Wang Huiqing, the spouse of Mr. Lin Wanpeng is deemed to be interested in 59,011,000 shares of the Company, representing approximately 6.92% of the entire issued share capital of the Company.

As at 31 December 2021, save as disclosed above, so far as was known to the Directors, no other person (other than the Directors or chief executive of the Company) had any interests or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as notified to the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 42 to the consolidated financial statements. In the opinion of the independent non-executive directors, none of the related party transactions is a connected transaction or continuing connected transaction of the Company as defined in Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group (other than contracts of service with Director or any person engaged in full time employment of the Group) were entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

REPORT OF THE DIRECTORS

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their qualifications, competence and performance.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market rates.

The Company has adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme are set out in the above section of share option scheme.

CHARITABLE CONTRIBUTIONS

During the year, the Group donated a total amount of approximately RMB800,000 for charitable purpose (2020: RMB480,000).

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2021.

EVENTS AFTER THE REPORTING PERIOD

The details of event after the end of the reporting period of the Group are set out in note 43 to the financial statements.

AUDITORS

The consolidated financial statements for the year have been audited by ZHONGHUI ANDA CPA Limited. A resolution will be submitted to the annual general meeting to re-appoint ZHONGHUI ANDA CPA Limited as auditor of the Company.

CONTINUED SUSPENSION IN TRADING

Trading in the Shares of our Company was suspended with effect from 14 February 2013 and will remain suspended until further notice.

On Behalf of the Board

Mr. Lin Shengxiong
Chairman

Hong Kong, 30 March 2022

INDEPENDENT AUDITOR'S REPORT



**TO THE SHAREHOLDERS OF
CHINA LONGEVITY GROUP COMPANY LIMITED**
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Longevity Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 138, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

Property, plant and equipment

Refer to Note 18 to the consolidated financial statements

The Group measured its buildings and plant and machinery at revaluation model, which are significant to our audit because the balance of buildings and plant and machinery included in property, plant and equipment of RMB298,562,000 and RMB130,878,000 as at 31 December 2021 respectively are material to the consolidated financial statements. In addition, the Group's fair value measurement involves application of judgement and is based on several key inputs that require significant management assumptions, estimations and other inputs.

Our audit procedures included, among others:

- assessing the competence, independence and integrity of the external valuer engaged by client;
- obtaining the external valuation reports and communicating with external valuer, to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;
- checking key assumptions and input data in the valuation model to supporting evidence;
- checking arithmetical accuracy of the valuation model; and
- assessing the disclosure of the fair value measurement in the consolidated financial statements.

We consider that the Group's fair value measurement of the buildings and plant and machinery for property, plant and equipment is supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

Trade and bills receivables

Refer to Note 26 to the consolidated financial statements

The Group tested the amount of trade and bills receivables for impairment. This impairment test is significant to our audit because the balance of trade and bills receivables of RMB327,857,000 as at 31 December 2021 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgment and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on granting credit limits and credit periods to customers;
- Assessing the Group's relationship and transaction history with the customers;
- Evaluating the Group's impairment assessment;
- Assessing ageing of the debts;
- Assessing creditworthiness of the customers;
- Checking subsequent settlements from the customers; and
- Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment test for trade and bills receivables are supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Fong Tak Ching

Audit Engagement Director

Practising Certificate Number P06353

Hong Kong, 30 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	9	1,441,015	812,141
Cost of sales		(1,180,547)	(623,431)
GROSS PROFIT		260,468	188,710
Other income and gains	10	10,941	30,106
Selling and distribution costs		(42,319)	(28,577)
Administrative expenses		(92,877)	(73,232)
Share of loss of an associate		(11)	–
Other expenses		(6,518)	(16,819)
PROFIT FROM OPERATIONS		129,684	100,188
Fair value loss on investment properties		(1,004)	(4,663)
Gain/(loss) on revaluation of property, plant and equipment		5,594	(43,644)
Loss on fair value changes at financial assets at fair value through profit or loss		(40)	–
Gain on dissolution of a subsidiary		–	6,776
Impairment of various assets		(745)	(5,301)
Finance costs	11	(15,673)	(9,076)
PROFIT BEFORE TAX	12	117,816	44,280
Income tax (expense)/credit	13	(11,631)	751
PROFIT FOR THE YEAR		106,185	45,031
Other comprehensive income/(expense) after tax:			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences on translation of the Company		1,666	(6,498)
Gain on revaluation of property, plant and equipment		27,682	43,745
Deferred tax effect arising on revaluation of property, plant and equipment		(4,152)	(6,569)
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of the Company		(1,420)	6,550
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		129,961	82,259

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		106,932	45,031
Non-controlling interests		(747)	–
		106,185	45,031
TOTAL COMPREHENSIVE INCOME/(EXPENSE)			
Owners of the Company		130,708	82,259
Non-controlling interests		(747)	–
		129,961	82,259
EARNINGS PER SHARE (RMB cents)			
	17		
– Basic		12.54	5.28
– Diluted		12.54	5.28

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	18	458,525	420,375
Right-of-use assets	19	90,178	33,068
Investment properties	20	35,366	36,370
Intangible assets	21	684	684
Interest in an associate	22	1,361	–
Deposits paid for acquisition of property, plant and equipment		14,560	15,228
Equity investments at fair value through other comprehensive income	23	4,140	4,140
Deferred tax assets	24	2,797	3,444
Total non-current assets		607,611	513,309
Current assets			
Inventories	25	203,775	146,066
Trade and bills receivables	26	327,857	190,289
Prepayments, deposits and other receivables	27	35,495	26,731
Pledged bank deposits	28	138,658	58,930
Cash and cash equivalents	28	77,994	34,899
Total current assets		783,779	456,915
Current liabilities			
Trade and bills payables	29	486,664	288,997
Lease liabilities	30	3,198	876
Contract liabilities	31	4,709	3,717
Other payables and accruals	32	52,003	55,191
Interest-bearing borrowings	33	216,275	165,741
Due to a director	35	9,050	3,100
Tax payable		12,633	11,313
Total current liabilities		784,732	528,935
Net current liabilities		(953)	(72,020)
Total assets less current liabilities		606,658	441,289

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Interest-bearing borrowings	33	33,429	34,239
Lease liabilities	30	2,552	2,376
Deferred income	34	1,650	–
Deferred tax liabilities	24	9,296	4,208
Total non-current liabilities		46,927	40,823
NET ASSETS		559,731	400,466
Capital and reserves			
Issued capital	36	747	747
Reserves		530,427	399,719
		531,174	400,466
Non-controlling interests		28,557	–
TOTAL EQUITY		559,731	400,466

The consolidated financial statements on pages 71 to 138 were approved and authorised for issue by the board of directors on 30 March, 2022 and are signed on its behalf by:

Approved by:

Lin Shengxiong
Director

Huang Wanneng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Issued capital	Capital surplus/ share premium*	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Revaluation reserve*	Accumulated losses*	Sub-total	Non- controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	747	566,403	28,994	128,774	(9,063)	12,235	(409,883)	318,207	-	318,207
Total comprehensive income/ for the year	-	-	-	-	52	37,176	45,031	82,259	-	82,259
Appropriation to statutory surplus reserve	-	-	-	4,562	-	-	(4,562)	-	-	-
At 31 December 2020	747	566,403	28,994	133,336	(9,011)	49,411	(369,414)	400,466	-	400,466
At 1 January 2021	747	566,403	28,994	133,336	(9,011)	49,411	(369,414)	400,466	-	400,466
Total comprehensive income/ (expenses) for the year	-	-	-	-	246	23,530	106,932	130,708	(747)	129,961
Transfer	-	-	-	-	-	(6)	6	-	-	-
Appropriation to statutory surplus reserve	-	-	-	12,182	-	-	(12,182)	-	-	-
Capital contribution by a non-controlling shareholder	-	-	-	-	-	-	-	-	29,304	29,304
At 31 December 2021	747	566,403	28,994	145,518	(8,765)	72,935	(274,658)	531,174	28,557	559,731

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	117,816	44,280
Adjustments for:		
Finance costs	15,673	9,076
Interest income	(800)	(241)
Depreciation of property, plant and equipment	54,918	37,007
Depreciation on right-of-use assets	2,868	1,904
Net loss on disposals of property, plant and equipment	952	1,408
Written-off of property, plant and equipment	1,762	10,894
Recovery of bad debts	–	(19,018)
Reversal of impairment of trade receivables, net	(1,569)	(1,181)
Release of deferred income	1,850	(330)
Fair value loss on investment properties	1,004	4,663
(Gain)/loss on revaluation of property, plant and equipment	(5,594)	43,644
Gain on dissolution of a subsidiary	–	(6,776)
Lease modification	(20)	–
Gain on lease termination	(67)	–
Share of loss of an associate	11	–
Impairment of inventories, net	745	5,301
Dividend income from equity investments at fair value through other comprehensive income	(217)	–
Operating profit before working capital changes	189,332	130,631
Change in inventories	(58,454)	(36,207)
Change in trade and bills receivables	(135,999)	(52,675)
Change in prepayments, deposits and other receivables	(9,436)	(6,683)
Change in trade and bills payables	197,667	10,853
Change in contract liabilities	992	(18,026)
Change in other payables and accruals	2,138	3,878
Cash generated from operations	186,240	31,771
Income tax paid	(8,729)	(3,388)
Net cash generated from operating activities	177,511	28,383

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(57,521)	(100,408)
Additions of investment properties	–	(4,503)
Proceeds from disposals of property, plant and equipment	39	5,688
Capital injection to an associate	(1,372)	–
Acquisition of land use right	(55,826)	–
Increase in pledged bank deposits	(79,728)	(1,515)
Payment of deposits for acquisition of property, plant and equipment	(8,361)	(14,992)
Interest received	800	241
Dividend received	217	–
Net cash used in investing activities	(201,752)	(115,489)
CASH FLOWS FROM FINANCING ACTIVITIES		
New interest-bearing borrowings	224,928	229,164
Contribution from a non-controlling shareholder	29,304	–
Repayment of interest-bearing borrowings	(175,204)	(118,913)
Repayment of lease liabilities	(2,457)	(948)
Repayment to a related party	–	(4,000)
Advance from/(repayment to) a director	5,950	(540)
Interest paid	(15,311)	(8,998)
Net cash generated from financing activities	67,210	95,765
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	34,899	26,414
Effect on exchange rate changes	126	(174)
Cash and cash equivalents at end of year	77,994	34,899
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	77,994	34,899

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 7 October 2009. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is located at Room 617, 6/F., Seapower Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited and have been suspended for trading since 14 February 2013.

The Company acts as an investment holding company. The Company, through its major subsidiaries, is principally engaged in the design, development, manufacture and sale of (i) polymer processed high strength polyester fabric composite materials and other reinforced composite and conventional materials ("Material Products") and (ii) PVC and Non-PVC composite materials of floorings and wall panels ("Building Material Products", formerly knowns as "Flooring Products") during the year.

In the opinion of the directors of the Company (the "Directors"), as at the date of issue of these consolidated financial statements, Hopeland International Holdings Company Limited ("Hopeland International") is the ultimate holding company of the Company; and Mr. Lin Shengxiong ("Mr. Lin"), the Chairman and an executive director, is the ultimate controlling party of the Company.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates 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.

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, except for the investment properties which have been measured at fair value. They are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity’s returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Consolidation *(continued)*

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated exchange fluctuation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Group's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

(c) Translation on consolidation

The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange fluctuation reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings, plant and machinery are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

Revaluation increases of buildings, plant and machinery are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property, plant and machinery revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property, plant and machinery revaluation reserve are charged against the property, plant and machinery revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued property, plant and machinery, the attributable revaluation increases remaining in the property, plant and machinery revaluation reserve is transferred directly to retained profits.

Depreciation of property, plant and machinery are calculated at rates sufficient to write off their revalued amounts less their residual values over the estimated useful lives on a reducing balance basis.

Other property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	30%
Office equipment	18%
Motor vehicles	18%

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

Intangible assets (other than goodwill)

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

Building use right

Building use right is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of twenty-five years.

Software

Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Patent and trademark

Purchased patent is stated at cost less any impairment loss and amortised on the straight-line basis over its estimated useful life of five years.

Trademark with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the trademark has suffered an impairment loss.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's new product development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

- Financial assets at amortised cost; and
- Equity investments at fair value through other comprehensive income;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

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

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investments.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument (“lifetime expected credit losses”) for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loss allowances for expected credit losses *(continued)*

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Machinery	10%
Land and buildings	2% – 60%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$ 5,000.

The Group as lessor

Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

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

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal group classified as held for sale are measured at the lower of the assets' or disposal group's previous carrying amount and fair value less costs to sell.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers *(continued)*

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or 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.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other income

Rental income is recognised on a straight-line basis over the lease term.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' right to receive payment has been established.

Employee benefits

Pension schemes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension schemes *(continued)*

The employees of the Group's subsidiaries which operate in Mainland China (the "PRC") are required to participate in a central pension scheme operated by the local municipal governments. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

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 capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax is recognised on 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such 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 arising on 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (B) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the entities comprising the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except investments, deferred tax assets, inventories and receivables 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENT AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

5. CRITICAL JUDGEMENT AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty

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

(a) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds their recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

(b) Impairment of trade and other receivables

The Group makes impairment for trade and other receivables based on assessments of the recoverability of the receivables, including the current creditworthiness and the past collection history of each debtor. Impairment arises where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(c) Impairment of inventories

The Group determines impairment for obsolescence of inventories with reference to aged inventory analysis and projections of expected future saleability of goods. Impairment of inventories will be made when the carrying amounts of inventories are higher than their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(d) Useful lives of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise interest-bearing bank loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise funding for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The Directors review and agree on policies for managing each of these risks and they are summarised below:

Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates. The Group's business are mainly located in the PRC and are mainly transacted and settled in RMB. Accordingly, the Group has minimal exposure to foreign currency risk.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing borrowings and deposits at banks. The interest rates and terms of repayment of interest-bearing borrowings are disclosed in note 33.

At 31 December 2021, if interest rates had been 100 basis points higher/lower with all other variables held constant, profit after tax for the year would have been RMB806,000 (2020: RMB155,000 lower/higher) lower/higher, arising mainly as a result of lower/higher interest expense on bank borrowings and lower/higher interest income on bank balances.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- internal credit rating;
- external credit rating (if available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 120 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when a debtor fails to make contractual payments greater than 365 days past due. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group's credit risk is primarily attributable to its trade and other receivables and deposits with financial institutions.

(i) Trade and other receivables

The Group has established a credit policy under which credit evaluations are performed on all customers requiring credit. Trade receivables are due within 3 months from the date of delivery. Debtors with balances that are more than 3 months are requested to settle all outstanding balance before any further credit to be granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At 31 December 2021, the Group has certain concentration of credit risk as approximately RMB55,883,000 (2020: RMB40,528,000) out of the total trade receivables of approximately RMB327,457,000 (2020: RMB190,289,000) was due from the Group's largest debtor.

(ii) Deposits with financial institutions

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At 31 December 2021 and 2020, the Group has low concentration of credit risk as the deposits are placed in various financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payment, is as follows:

At 31 December 2021

	Within one year or on demand RMB'000	Two to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade and bills payables	486,664	–	–	486,664
Other payables and accruals	52,003	–	–	52,003
Due to a director	9,050	–	–	9,050
Lease liabilities	3,198	2,552	–	5,750
Future finance charges	331	113	–	444
Principal portion of borrowings	216,275	29,377	4,052	249,704
Interest portion of borrowings	11,597	3,265	433	15,295
	779,118	35,307	4,485	818,910

At 31 December 2020

	Within one year or on demand RMB'000	In the second year RMB'000	Over five years RMB'000	Total RMB'000
Trade and bills payables	288,997	–	–	288,997
Other payables and accruals	55,191	–	–	55,191
Due to a director	3,100	–	–	3,100
Lease liabilities	876	2,376	–	3,252
Future finance charges	139	179	–	318
Principal portion of borrowings	165,741	29,029	5,210	199,980
Interest portion of borrowings	11,186	2,485	712	14,383
	525,230	34,069	5,922	565,221

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Financial assets:		
Equity investments at fair value through other comprehensive income	4,140	4,140
Financial assets at amortised cost (including cash and cash equivalents)		
Trade and bills receivables	327,857	190,289
Financial assets included in prepayments, deposits and other receivables	10,337	4,885
Pledged bank deposits	138,658	58,930
Cash and cash equivalents	77,994	34,899
	558,986	293,143
Financial liabilities:		
Financial liabilities at amortised cost:		
Trade and bills payables	486,664	288,997
Financial liabilities included in other payables and accruals	52,003	55,191
Lease liabilities	5,750	3,252
Due to a director	9,050	3,100
Borrowings	249,704	199,980
	803,171	550,520

Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December 2021 and 2020:

At 31 December 2021

Description	Fair value measurement using:			Total 2021 RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Recurring fair value measurements:				
Investment properties				
Commercial – PRC	–	–	35,366	35,366
Property, plant and equipment				
Buildings – PRC	–	–	298,562	298,562
Plant and machinery – PRC	–	–	130,878	130,878
	–	–	464,806	464,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. FAIR VALUE MEASUREMENTS (continued)

(a) Disclosures of level in fair value hierarchy at 31 December 2021 and 2020: (continued)

At 31 December 2020

Description	Fair value measurement using:			Total 2020 RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Recurring fair value measurements:				
Investment properties				
Commercial – PRC	–	–	36,370	36,370
Property, plant and equipment				
Buildings – PRC	–	–	290,437	290,437
Plant and machinery – PRC	–	–	102,380	102,380
	–	–	429,187	429,187

(b) Reconciliation of assets measured at fair value based on level 3:

Description	Property, plant and equipment 2021 RMB'000	Investment properties 2021 RMB'000	Total 2021 RMB'000
At 1 January 2021	392,817	36,370	429,187
Addition	33,316	–	33,316
Transfer from Property, plant and equipment	22,129	–	22,129
Transfer from right-of-use assets	1,192	–	1,192
Depreciation	(51,141)	–	(51,141)
Disposal/written off	(2,149)	–	(2,149)
Total gains recognised in other comprehensive income	27,682	–	27,682
Gain/(loss) on revaluation recognised in profit and loss ^(#)	5,594	(1,004)	4,590
At 31 December 2021	429,440	35,366	464,806
	5,594	(1,004)	4,590

[#] Include gain/(losses) for assets held at end of reporting period

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of assets measured at fair value based on level 3: (continued)

Description	Property, plant and equipment	Investment properties	Total
	2020 RMB'000	2020 RMB'000	2020 RMB'000
At 1 January 2020	–	35,710	35,710
Property, plant and equipment transfer from cost model to revaluation model	393,536	–	393,536
Addition	–	4,503	4,503
Transfer from Property, plant and equipment	(3,146)	3,146	–
Loss on revaluation due to transfer from Property, plant and equipment to Investment properties	2,326	(2,326)	–
Total gains recognised in other comprehensive income	43,745	–	43,745
Loss on revaluation recognised in profit and loss ^(#)	(43,644)	(4,663)	(48,307)
At 31 December 2020	392,817	36,370	429,187
	(43,644)	(4,663)	(48,307)

[#] Include losses for assets held at end of reporting period

The total gains recognised in other comprehensive income are presented in gain on revaluation of property, plant and equipment in the statement of profit or loss and other comprehensive income. The total losses recognised in profit or loss including those for assets held at end of reporting period are presented in loss on revaluation of property, plant and equipment and fair value loss on investment properties in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements:

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Directors determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model and to understand the cause of fluctuations in the fair value of the assets and liabilities.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable input used in level 3 fair value measurements is mainly the rental income per square meter (estimated based on market comparables with adjustment on various factors).

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2021 RMB'000
Investment properties An Industrial Complex situated at No. 63 Huli Yuan, Tongan District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB10 per month	Increase	13,640
Investment properties An office situated at No. 1 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB65 per month	Increase	20,520

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. FAIR VALUE MEASUREMENTS (continued)

Level 3 fair value measurements (continued)

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2021 RMB'000
Investment properties An Industrial Complex situated at Gangqian Road, Minhou District, Fuzhou City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB5.42 per month	Increase	430
Investment properties An Industrial Complex situated at No.88 Hankou North Avenue, Huang Pi District, Wuhan City, Hubei Province, PRC	Income approach	Rental income per square meter: RMB27 per month	Increase	776
Buildings Car parks situated at No. 15 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Market comparable approach	Price per unit: RMB160,458 per unit	Increase	1,925
Buildings An office situated at No. 18 North Second Ring Middle Huda Road, Gu Lou District, Fuzhou City, Fujian Province, PRC	Market comparable approach	Price per square meter: RMB32,955	Increase	25,810
Buildings	Depreciated replacement cost	Current cost of replacing the improvement	Increase	270,827
Plant and machinery	Depreciated replacement cost	Market value for similar assets	Increase	130,878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. FAIR VALUE MEASUREMENTS (continued)

Level 3 fair value measurements (continued)

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2020 RMB'000
Investment properties An Industrial Complex situated at No. 63 Huli Yuan, Tongan District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB10 per month	Increase	13,970
Investment properties An office situated at No. 1 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB65 per month	Increase	20,960
Investment properties An Industrial Complex situated at Gangqian Road, Minhou District, Fuzhou City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB5.42 per month	Increase	620
Investment properties An Industrial Complex situated at No.88 Hankou North Avenue, Huang Pi District, Wuhan City, Hubei Province, PRC	Income approach	Rental income per square meter: RMB27 per month	Increase	820
Buildings Car parks situated at No. 15 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Market comparable approach	Price per unit: RMB167,565 per unit	Increase	2,011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. FAIR VALUE MEASUREMENTS (continued)

Level 3 fair value measurements (continued)

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2020 RMB'000
Buildings An office situated at No. 18 North Second Ring Middle Huda Road, Gu Lou District, Fuzhou City, Fujian Province, PRC	Market comparable approach	Price per square meter: RMB32,955	Increase	29,310
Buildings	Depreciated replacement	Current cost of replacing the improvement	Increase	259,116
Plant and machinery	Depreciated replacement cost	Market value for similar assets	Increase	102,380

8. SEGMENT INFORMATION

There is only one operating segment which is principally engaged in the design, development, manufacture and sale of Material Products and Building Material Products.

Geographical information

	Revenue from external customers		Non-current assets	
	Year ended 31 December		As at 31 December	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	1,135,889	591,135	600,674	505,725
Others	305,126	221,006	–	–
	1,441,015	812,141	600,674	505,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

8. SEGMENT INFORMATION (continued)

Geographical information (continued)

In presenting the geographical information, the revenue information is based on the locations of the customers while the non-current assets information is based on the location of assets and excludes equity investments at fair value through other comprehensive income and deferred tax assets. No revenue from transactions with a single country other than PRC amounted to 10% or more of the Group's total sales for the year (2020: Nil).

Information about major customers

Revenue from customers of the year ended 31 December 2021 contributing over 10% (2020: Nil) of the total revenue of the Group are as follows:

	2021	2020
	RMB'000	RMB'000
Customer A	145,920	N/A

9. REVENUE

	2021	2020
	RMB'000	RMB'000
Sales of goods	1,441,015	812,141

There is only one operating segment which is principally engaged in the design, development, manufacture and sale of (i) Material Products and (ii) Building Material Products during the year. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 30 to 90 days. For new customers, payment in advance is normally required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9. REVENUE (continued)

Disaggregation of revenue from contracts with customers:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Geographical markets		
PRC	1,135,889	591,135
United States	68,017	52,061
Russia	51,846	39,814
Others	185,263	129,131
Total	1,441,015	812,141

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Major products		
Material products	1,347,962	743,415
Building Material Products	93,053	68,726
Total	1,441,015	812,141

The revenue was recognised at a point in time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

10. OTHER INCOME AND GAINS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income	800	241
Government subsidies (<i>note</i>)	3,827	5,851
Gross rental income	3,396	3,084
Dividend income from equity investments at fair value through other comprehensive income	217	52
Recovery of bad debts	–	19,018
Reversal of allowance for receivables, net	1,569	1,181
Sundry income	1,132	679
	10,941	30,106

Note: Government subsidies are received and used for development of new products and implementation of environmental protection development programmes. These government subsidies are not attributable to any non-current assets and there are no other specific conditions attached to the subsidies. Therefore, the Group recognised the subsidies upon receipt during the years ended 31 December 2021 and 2020.

11. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Lease interest	367	114
Interest on bank loans	8,941	7,975
Interest on other loans	7,415	987
Total borrowing cost	16,723	9,076
Less: interests capitalised	(1,050)	–
	15,673	9,076

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

12. PROFIT BEFORE TAX

The Group's profit before tax is stated after charging/(crediting):

	2021	2020
	RMB'000	RMB'000
Cost of inventories sold *	1,180,547	623,431
Depreciation of property, plant and equipment	54,918	37,007
Depreciation on right-of-use assets	2,868	1,904
Net loss on disposals of property, plant and equipment	952	1,408
Written-off of property, plant and equipment	1,762	10,894
Staff costs (including directors' remuneration):		
Wages and salaries	44,922	37,109
Retirement benefit scheme contributions	2,125	923
Staff welfare expenses	2,784	2,227
	49,831	40,259
Research and development costs	59,976	48,137
Exchange loss, net	1,795	3,777
Fair value loss on investment properties	1,004	4,663
(Gain)/loss on revaluation of property, plant and equipment	(5,594)	43,644
Reversal of loss allowance of trade receivables, net	(1,569)	(1,181)
Impairment of inventories, net	745	5,301
Auditors' remuneration	1,312	1,290

* Cost of inventories sold includes RMB66,709,000 (2020: RMB54,834,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

13. INCOME TAX EXPENSE/(CREDIT)

	2021	2020
	RMB'000	RMB'000
Current tax – the PRC		
Charge for the year	10,981	6,503
Over-provision in prior years	(933)	(668)
Deferred tax (<i>note 24</i>)	1,583	(6,586)
	11,631	(751)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

13. INCOME TAX EXPENSE/(CREDIT) (continued)

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has to be provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the years ended 31 December 2021 and 2020.

Pursuant to the approval of the tax bureau, in accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), Fujian Sijia Industrial Material Co., Ltd.[#] (福建思嘉環保材料科技有限公司) (“Fujian Sijia”) and Sijia New Material (Shanghai) Co., Ltd.[#] (思嘉環保材料科技(上海)有限公司) (“Shanghai Sijia”) are subject to the tax rate of 15% for being a high-tech enterprise. Other subsidiaries are subject to a corporate income tax rate of 25% according to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法).

[#] The English name is for identification only

The reconciliation between income tax expense and profit before tax is as follows:

	2021 RMB'000	2020 <i>RMB'000</i>
Profit before tax	117,816	44,280
Tax at the applicable tax rate of 25% (2020: 25%)	29,454	11,070
Lower tax rate for specific province or enacted by local authority	(13,556)	(4,166)
Tax effect of income not taxable and expenses not deductible	(3,334)	(6,987)
Over-provision in prior years	(933)	(668)
Income tax expense/(credit)	11,631	(751)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The emoluments of each director and senior management, equivalent to key management compensation, are as follows:

For the year ended 31 December 2021				
	Fees	Salaries, allowances and benefits in-kind	Retirement benefit scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Lin	–	1,385	79	1,464
Mr. Huang Wanneng	–	878	62	940
Mr. Jiang Shisheng	–	413	38	451
Mr. Liu Jun	(i)	188	13	201
	–	2,864	192	3,056
Independent non-executive directors				
Mr. Lau Chun Pong	199	–	10	209
Mr. Lu Jiayu	120	–	–	120
Ms. Jiang Ping	60	–	–	60
	379	–	10	389
Subtotal for directors' emoluments	379	2,864	202	3,445
Senior management	–	3,013	187	3,200
Total	379	5,877	389	6,645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

14. DIRECTORS' AND SENIOR MANAGEMENT' S EMOLUMENTS (continued)

	For the year ended 31 December 2020			
	Fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
Executive directors				
Mr. Lin	–	1,158	45	1,203
Mr. Huang Wanneng	–	684	40	724
Mr. Jiang Shisheng	–	374	30	404
	–	2,216	115	2,331
Independent non-executive directors				
Mr. Lau Chun Pong	214	–	11	225
Mr. Lu Jiayu	120	–	–	120
Ms. Jiang Ping	60	–	–	60
	394	–	11	405
Subtotal for directors' emoluments	394	2,216	126	2,736
Senior management	–	3,159	94	3,253
Total	394	5,375	220	5,989

Note:

- (i) Mr. Liu Jun has been appointed as an executive Director with effect from 16 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included 3 (2020: 3) directors, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2020: 2) highest paid individual are set out below:

	2021	2020
	RMB'000	RMB'000
Salaries and allowances	1,013	865
Retirement benefit scheme contributions	41	24
	1,054	889

The emoluments of the individual fall within the following band:

	Number of individuals	
	2021	2020
	RMB'000	RMB'000
Nil – HK\$1,000,000	2	2

During the years ended 31 December 2021 and 2020, no emoluments was paid or payable to the five highest paid individuals (including Directors and other employees) as an inducement to join the Group or as a compensation for loss of office.

16. DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2021 (2020: Nil).

17. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately RMB106,932,000 (2020: RMB45,031,000) and the weighted average number of approximately 852,612,000 (2020: 852,612,000) ordinary shares in issue during the year.

Diluted earning per share

Diluted earning per share for the years ended 31 December 2021 and 2020 is the same as the basic earning per share as the Company did not have any dilutive potential ordinary shares during the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation							
At 1 January 2020	549,681	576,579	5,711	2,298	3,959	5,885	1,144,113
Additions	10,056	25,547	1,593	533	1,780	64,696	104,205
Disposals	(3,462)	(1,459)	-	-	-	(5,004)	(9,925)
Written off	(10,350)	(60,910)	(3,725)	(537)	(460)	-	(75,982)
Transfer to right-of-use assets	-	8,311	-	-	-	-	8,311
Transfer from CIP	27,081	16,669	1,117	-	-	(44,867)	-
Transfer to investment properties	(5,114)	-	-	-	-	-	(5,114)
Reclassification	-	(815)	-	-	815	-	-
Revaluation	(277,455)	(461,542)	-	-	-	-	(738,997)
At 31 December 2020 and 1 January 2021	290,437	102,380	4,696	2,294	6,094	20,710	426,611
Additions	5,864	27,452	5,900	415	1,444	20,278	61,353
Disposals	(103)	-	-	(8)	(288)	(596)	(995)
Written off	-	(2,077)	-	-	(101)	-	(2,178)
Transfer from right-of-use assets	-	1,402	-	-	-	-	1,402
Transfer from CIP	4,817	17,312	1,165	-	-	(23,294)	-
Revaluation	(2,453)	(15,591)	-	-	-	-	(18,044)
At 31 December 2021	298,562	130,878	11,761	2,701	7,149	17,098	468,149
Accumulated depreciation and impairment							
At 1 January 2020	259,481	510,606	4,556	2,176	2,473	-	779,292
Charge for the year	21,292	14,318	765	55	577	-	37,007
Disposals	(2,359)	(470)	-	-	-	-	(2,829)
Written off	(6,494)	(54,030)	(3,571)	(612)	(381)	-	(65,088)
Transfer to right-of-use assets	-	1,246	-	-	-	-	1,246
Transfer to investment properties	(1,968)	-	-	-	-	-	(1,968)
Reclassification	-	(198)	-	-	198	-	-
Write back on revaluation	(269,952)	(471,472)	-	-	-	-	(741,424)
At 31 December 2020 and 1 January 2021	-	-	1,750	1,619	2,867	-	6,236
Charge for the year	25,008	26,133	3,072	134	571	-	54,918
Disposals	(4)	-	-	-	-	-	(4)
Written off	-	(27)	-	(7)	(382)	-	(416)
Transfer from right-of-use assets	-	210	-	-	-	-	210
Write back on revaluation	(25,004)	(26,316)	-	-	-	-	(51,320)
At 31 December 2021	-	-	4,822	1,746	3,056	-	9,624
Carrying amount							
At 31 December 2021	298,562	130,878	6,939	955	4,093	17,098	458,525
At 31 December 2020	290,437	102,380	2,946	675	3,227	20,710	420,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

18. PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2021, certain buildings and plant and machinery with an aggregate carrying amount of approximately RMB299,948,000 (2020: RMB286,190,000) were pledged to secure bank loan facilities granted to the Group (note 33).

The Group's buildings, plant and machinery were revalued at 31 December 2021 on the open market value basis by reference to market evidence of recent transactions for similar assets and net replacement cost by 福建聯合中和資產評估房地產估價有限公司, an independent professional valuer.

19. LEASES AND RIGHT-OF-USE ASSETS

	2021 RMB'000	2020 RMB'000
Disclosures of lease-related items:		
At 31 December		
Right-of-use assets		
– Machinery	5,385	1,192
– Land and buildings	84,793	31,876
	90,178	33,068
Lease commitments of short-term leases	179	37
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
– Within 1 year	3,529	1,015
– Between 2 and 5 years	2,665	2,555
	6,194	3,570
Depreciation charge of right-of-use assets		
– Machinery	279	126
– Land and buildings	2,589	1,778
	2,868	1,904
Lease interests	367	114
Expenses related to short-term leases	620	306
Total cash outflow for leases	(2,462)	(984)
Additions to right-of-use assets	61,547	2,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

19. LEASES AND RIGHT-OF-USE ASSETS (continued)

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

At 31 December 2021, leasehold lands and machinery with carrying amounts of approximately RMB15,214,000 and RMB5,385,000 respectively (2020: RMB15,598,000 and RMB1,192,000 respectively) were pledged to secure bank loan facilities and finance lease agreements granted to the Group (note 33).

20. INVESTMENT PROPERTIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At beginning of year	36,370	35,710
Addition	–	4,503
Transfer from property, plant and equipment	–	3,146
Loss on revaluation due to transfer from Property, plant and equipment to Investment properties	–	(2,326)
Fair value loss on investment properties	(1,004)	(4,663)
	<hr/>	<hr/>
At end of year	35,366	36,370

The estimated aggregate fair value of the investment properties as at 31 December 2021 was approximately RMB35,366,000 (2020: RMB36,370,000), which has been arrived at on the basis of valuations carried out by 福建華成房地產土地資產評估有限公司 and 福建聯合中和資產評估房地產估價有限公司, independent professional valuers.

At 31 December 2021, investment properties with carrying amount of approximately RMB20,520,000 (2020: RMB20,960,000) were pledged to secure bank loan facilities granted to the Group (note 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. INTANGIBLE ASSETS

	Software <i>RMB'000</i>	Patent <i>RMB'000</i>	Trademark <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	2,114	50	684	2,848
Accumulated amortisation				
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	2,114	50	–	2,164
Carrying amount				
At 31 December 2021	–	–	684	684
At 31 December 2020	–	–	684	684

22. INTEREST IN AN ASSOCIATE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of investments in an associate		
– Unlisted	1,372	–
Share of losses	(11)	–
	1,361	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

22. INTEREST IN AN ASSOCIATE (continued)

Particulars of the associate as at 31 December 2021 are as follows:

Name	Place of incorporation and operation	Particulars of issued and paid up capital	Effective ownership interest indirectly held by the Group	Proportion of voting power held	Principal activity
Fujian Siqi New Materials Co., Ltd [#] ("Fujian Siqi New Materials")	PRC	RMB2,800,000	49%	49%	Manufacturing and selling

[#] The English names are for identification only materials

Note:

Based on the legal form and terms of the contractual arrangements, the interest in Fujian Siqi New Materials is classified as an associate as the Group has significant influence over this associate.

Summarised financial information of the associate

The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

Fujian Siqi New Materials

	2021 RMB'000
Current assets and Net assets	2,777
The above amounts of assets include the following:	
Cash and cash equivalents	67
Revenue	–
Loss for the year	(23)
Carrying amount of the Group's interest in Fujian Siqi New Materials	1,361

During the year, the share of loss of an associate and other comprehensive expenses of the associate by the Group was RMB11,000(2020: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 RMB'000	2020 RMB'000
Unlisted equity investment in the PRC	4,140	4,140

The above investments are intended to be held for the medium to long-term. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss. The cost of the equity investments at fair value through other comprehensive income approximate its fair value and is an appropriate estimate of fair value since there is insufficient more recent information available to measure the fair value.

24. DEFERRED TAX

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value change of investment properties RMB'000	Accrued social fund RMB'000	Accrued sales rebate RMB'000	Unapproved accelerated depreciation and amortisation and impairment RMB'000	Others RMB'000	Total RMB'000
Deferred tax assets						
At 1 January 2020	730	612	1,500	407	48	3,297
Deferred tax credited/(charged) to profit or loss during the year (note 13)	195	-	-	-	(48)	147
At 31 December 2020 and 1 January 2021	925	612	1,500	407	-	3,444
Deferred tax (charged)/credited to profit or loss during the year (note 13)	(925)	-	-	-	278	(647)
At 31 December 2021	-	612	1,500	407	278	2,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

24. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value change of revaluation of property, plant and equipment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020	4,078	–	4,078
Deferred tax (credited)/charged to profit or loss during the year (<i>note 13</i>)	(6,547)	108	(6,439)
Deferred tax charged to the consolidated other comprehensive income after tax during the year	6,569	–	6,569
At 31 December 2020 and 1 January 2021	4,100	108	4,208
Deferred tax charged to profit or loss during the year (<i>note 13</i>)	806	130	936
Deferred tax charged to the consolidated other comprehensive income after tax during the year	4,152	–	4,152
At 31 December 2021	9,058	238	9,296

Deferred tax assets have not been recognised in respect of the following items:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Tax losses	8,074	15,882

The Group also has tax losses arising in the PRC of approximately RMB8,074,000 (2020: RMB15,882,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for years and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

25. INVENTORIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Raw materials	110,642	92,020
Work in progress	21,332	12,747
Finished goods	71,801	41,299
	203,775	146,066

26. TRADE AND BILLS RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	332,891	197,292
Bills receivables	400	–
Provision for loss allowance	(5,434)	(7,003)
	327,857	190,289

The Group's trading terms with customers mainly comprise credit and cash on delivery. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management.

The aging analysis of trade receivables at the end of the reporting period, based on the date the Group is entitled to receive, and net of allowance, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	302,053	180,891
More than 3 months but within 6 months	20,148	9,173
More than 6 months but within 1 year	5,656	225
	327,857	190,289

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

26. TRADE AND BILLS RECEIVABLES (continued)

Reconciliation of loss allowance for trade receivables:

	2021 RMB'000	2020 <i>RMB'000</i>
At 1 January	7,003	8,193
Decrease in loss allowance for the year	(1,569)	(1,181)
Amounts written off	–	(9)
	<hr/>	<hr/>
At 31 December	5,434	7,003

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The weighted average expected credit losses also incorporate forward looking information.

	Current	Within 30 days past due	31-60 days past due	61-120 days past due	Over 120 days past due	Total
At 31 December 2021						
Weighted average expected loss rate	0%	0%	0%	0%	84%	
Receivable amount (RMB'000)	304,858	15,649	1,809	4,479	6,496	333,291
Loss allowance (RMB'000)	–	–	–	–	5,434	5,434
At 31 December 2020						
Weighted average expected loss rate	0%	1%	13%	24%	97%	
Receivable amount (RMB'000)	183,974	5,682	186	479	6,971	197,292
Loss allowance (RMB'000)	–	81	25	116	6,781	7,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Advances to suppliers (<i>note</i>)	9,200	12,596
Prepaid sales tax and government surcharges	14,416	8,391
Prepaid expenses	1,542	859
Other receivables	10,337	4,885
	35,495	26,731

Note: The advances were paid to suppliers to secure the supply of raw materials at the end of the reporting period.

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cash and bank balances	216,652	93,829
Less: Pledged bank deposits	(138,658)	(58,930)
Cash and cash equivalents	77,994	34,899

At the end of the reporting period, the Group's cash and bank balances denominated in RMB were approximately RMB214,549,000 (2020: RMB91,869,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interests at floating rates based on daily bank deposit rates. Certain deposits are pledged for bills payable which is due within six months. Therefore, pledged deposits are classified as current assets.

At 31 December 2021, bank deposits of RMB138,658,000 (2020: RMB58,930,000) were pledged to secure the banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

29. TRADE AND BILLS PAYABLES

	2021	2020
	RMB'000	RMB'000
Trade payables	221,500	120,357
Bills payables	265,164	168,640
	486,664	288,997

The aging analysis of trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2021	2020
	RMB'000	RMB'000
Within 3 months	330,472	202,398
More than 3 months but within 6 months	148,350	86,308
More than 6 months but within 1 year	7,838	291
More than 1 year	4	–
	486,664	288,997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

30. LEASE LIABILITIES

	Lease payments 2021 RMB'000	Present value of lease payments 2021 RMB'000	Lease payments 2020 RMB'000	Present value of lease payments 2020 RMB'000
Within one year	3,529	3,198	1,015	876
In the second to fifth years, inclusive	2,665	2,552	2,555	2,376
	6,194	5,750	3,570	3,252
Less: Future finance charges	<u>(444)</u>		<u>(318)</u>	
Present value of lease obligations	5,750	5,750	3,252	3,252
Less: Amount due for settlement within 12 months (shown under current liabilities)		<u>(3,198)</u>		<u>(876)</u>
Amount due for settlement after 12 months		<u>2,552</u>		<u>2,376</u>

At 31 December 2021 and 2020, the average effective borrowing rate was 4.75% to 10.77%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

31. CONTRACT LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	As at 1 January 2020 RMB'000
Contract liabilities	4,709	3,717	21,743

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	As at 1 January 2020 RMB'000
Contract assets (include in trade and bills receivables)	327,857	190,289	117,415

	2021 RMB'000	2020 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	3,677	2,701

Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:

	2021 RMB'000	2020 RMB'000
2021	–	3,717
2022	4,709	–
	4,709	3,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

31. CONTRACT LIABILITIES (continued)

Significant changes in contract liabilities during the years

	2021 RMB'000	2020 <i>RMB'000</i>
Increase due to operations in the year	85,495	49,024
Transfer of contract liabilities to revenue	(84,503)	(67,050)
	<hr/> 1,992	<hr/> 1,974

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

32. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 <i>RMB'000</i>
Accrued liabilities	16,240	15,862
Payroll payables	5,930	6,090
Payable for the acquisition of property, plant and equipment	20,425	25,622
Others	9,408	7,617
	<hr/> 52,003	<hr/> 55,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

33. INTEREST-BEARING BORROWINGS

	2021			2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
	Bank loans – Secured	3.021%-6.175%	2030	193,771	3.850%-5.655%	2030
Other loan – Secured	7.560%-11.605%	2024	30,933	7.560%-9.796%	2023	15,980
Other loan – Unsecured	12.00%	2022	25,000	12.00%	2023	18,000
			249,704			199,980
Repayable:						
Within one year or on demand			216,275			165,741
In the second year			19,876			18,655
In the third to fifth years, inclusive			9,501			10,374
Beyond five years			4,052			5,210
			249,704			199,980

Notes:

- (i) The Group's bank loans are secured by:
- mortgages over the Group's buildings and plant and machinery situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB299,948,000 (2020: RMB286,190,000);
 - mortgages over the Group's leasehold lands situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB15,214,000 (2020: RMB15,598,000); and
 - mortgages over the Group's investment properties in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB20,520,000 (2020: RMB20,960,000).
- (ii) The Group's other loans are secured by:
- mortgages over the Group's plant and machinery, office equipment and motor vehicles situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB51,245,000 (2020: RMB20,028,000);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

34. DEFERRED INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Government grants		
At 1 January	–	330
Addition	2,000	–
Released during the year	(150)	(330)
	<hr/>	<hr/>
At 31 December	1,850	–
	<hr/>	<hr/>
Current	200	–
Non-current	1,650	–
	<hr/>	<hr/>
	1,850	–
	<hr/>	<hr/>

Government grants received are for the technical development of machinery and equipment. The government grants received are accounted for as deferred income and are released to profit or loss over the expected useful lives of the underlying items of machinery and equipment. There are no unfulfilled conditions or contingencies relating to these grants.

35. DUE TO A DIRECTOR

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Due to a director		
Mr. Huang Wanneng	9,050	3,100
	<hr/>	<hr/>

The amount due is unsecured, with 5.22% annual interest-bearing and should be repaid within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

36. SHARE CAPITAL

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Authorised:		
2,000,000,000 ordinary shares of HK\$0.001 each	1,760	1,760
Issued and fully paid:		
852,612,470 ordinary shares of HK\$0.001 each	747	747

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

There is no movement of the number of shares issued and the share capital during the year.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

37. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

Nature and purpose of reserves of the Group

Statutory surplus reserve

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax as shown in the statutory financial statements of the relevant PRC subsidiaries and after making up prior year cumulative losses. The amounts and allocation basis are decided by the board of directors of the respective subsidiaries annually. The statutory surplus reserve can be applied in conversion into issued capital by means of capitalisation issue.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4.

(b) Company

	Share premium <i>RMB'000</i>	Exchange fluctuation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2020	877,157	(1,142)	(674,511)	201,504
Total comprehensive expenses for the year	–	(6,498)	(3,573)	(10,071)
At 31 December 2020 and 1 January 2021	877,157	(7,640)	(678,084)	191,433
Total comprehensive expenses for the year	–	1,666	(3,314)	(1,648)
At 31 December 2021	877,157	(5,974)	(681,398)	189,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Lease liabilities <i>RMB'000</i>	Interest- bearing borrowings <i>RMB'000</i>	Due to a related party <i>RMB'000</i>	Due to a director <i>RMB'000</i>	Total liabilities from financing activities <i>RMB'000</i>
At 1 January 2020	1,325	89,729	4,000	3,640	98,684
Changes in cash flows	(984)	101,289	(4,000)	(540)	95,765
Non-cash changes					
– new leases entered during the year	2,797	–	–	–	2,797
– interest charged	114	8,962	–	–	9,076
At 31 December 2020 and 1 January 2021	3,252	199,980	–	3,100	206,332
Changes in cash flows	(2,462)	34,418	–	5,950	37,906
Non-cash changes					
– new leases entered during the year	5,057	–	–	–	5,057
– lease modification	(20)	–	–	–	(20)
– remeasurement upon early termination of leases	(444)	–	–	–	(444)
– interest charged	367	15,306	–	–	15,673
At 31 December 2021	5,750	249,704	–	9,050	264,504

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

39. COMMITMENTS

(a) Commitments under operating leases

As lessor

The Group leases certain of its factory properties and building use right under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

At the end of the reporting period, the Group had total future minimum lease receivable under non-cancellable operating leases in respect of land and buildings and building use right as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within one year	2,548	3,225
In the second to fifth years, inclusive	7,989	7,719
Over 5 years	3,267	2,886
	13,804	13,830

(b) Capital commitments

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Property, plant and equipment		
Contracted but not provided for	50,901	11,458
Capital contribution to an associate	23,128	–
	74,029	11,458

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

40. CONTINGENT LIABILITIES

At 31 December 2021, the Group did not have any significant contingent liabilities (2020: Nil).

41. PLEDGE OF ASSETS

Details of the Group's interest-bearing borrowings and bills payable which are secured by the assets of the Group are included in notes 18, 19, 20 and 28.

42. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, as at 31 December 2021, the ultimate shareholder and a family member of the ultimate shareholder have guaranteed bank loans made to the Group of approximately RMB153,841,000 (2020: RMB126,999,000).

43. EVENTS AFTER THE REPORTING PERIOD

There will be no significant events after the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

44. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2021 are as follows:

Company name	Place of incorporation/ registration	Paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held:				
China Grandsoo Holdings Company Limited	British Virgin Islands	US\$3	100%	Investment holding
Indirectly held:				
Sijia International Holding Limited	Hong Kong	HK\$10,000	100%	Investment holding
Xiamen Grandsoo Industrial & Trade Company Limited (Note i)	PRC	HK\$300,000,000	100%	Manufacturing and selling end products
Fujian Sijia [#] (Note ii)	PRC	HK\$390,000,000	100%	Manufacturing and selling materials and end products
Shanghai Sijia [#] (Note i)	PRC	HK\$208,240,000	100%	Manufacturing and selling special functional composites
Fujian Sijia New Materials Technology Co., Ltd [#] (福建思嘉新材料科技有限公司) ("Fujian Sijia New Materials") (Note iii)	PRC	RMB59,377,800	51%	Manufacturing and selling materials and end products

[#] The English names are for identification only

Note:

- (i) The subsidiary is a wholly foreign-owned enterprise incorporated in the PRC.
- (ii) The subsidiary is a non-wholly foreign-owned enterprise incorporated in the PRC.
- (iii) The subsidiary is a non-wholly owned domestic limited company incorporated in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

44. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY (continued)

The following table shows information of the subsidiary that has non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Fujian Sijia New Materials 2021
Principal place of business and country of incorporation	PRC
% of ownership interests and voting rights held by NCI	51%
	<i>RMB'000</i>
At 31 December:	
Non-current assets	71,190
Current assets	2,601
Current liabilities	(15,938)
Net assets	57,853
Accumulated NCI	28,557
Year ended 31 December:	
Revenue	390
Loss for the year	(1,525)
Total comprehensive loss	(1,525)
Loss allocated to NCI	(747)
Net cash used in operating activities	(1,003)
Net cash used in investing activities	(71,734)
Net cash generated from financing activities	74,378
Net increase in cash and cash equivalents	1,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	Notes	2021 RMB'000	2020 RMB'000
Non-current assets			
Investments in subsidiaries		89,340	89,340
Current assets			
Due from a subsidiary		104,673	105,455
Cash and cash equivalents		244	1,046
		104,917	106,501
Current liabilities			
Other payables and accruals		3,725	3,661
		3,725	3,661
Net current assets		101,192	102,840
Total assets less current liabilities		190,532	192,180
NET ASSETS		190,532	192,180
Capital and reserves			
Issued capital	36	747	747
Reserves	37(b)	189,785	191,433
TOTAL EQUITY		190,532	192,180

46. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on 30 March, 2022.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
REVENUE	1,441,015	812,141	660,482	536,619	523,799
Gross profit	260,468	188,710	144,987	122,179	118,797
PROFIT BEFORE TAX	117,816	44,280	44,247	31,102	31,497
PROFIT FOR THE YEAR	106,185	45,031	40,448	31,125	28,396
Attributable to:					
Owners of the Company	106,932	45,031	40,448	31,125	28,396
Non-controlling interests	(747)	—	—	—	—
	106,185	45,031	40,448	31,125	28,396
Basic earnings per share (<i>RMB cents</i>)	12.54	5.28	4.74	3.65	3.33

	As at 31 December				
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Total assets	1,391,390	970,224	784,590	751,135	783,283
Equity and liabilities					
Total liabilities	831,659	569,758	466,383	477,169	540,518
Total equity	559,731	400,466	318,207	273,966	242,765