The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers] ***[DRAFT]***

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WEILI HOLDING LIMITED AND GRANDE CAPITAL LIMITED

Introduction

We report on the historical financial information of WEIli Holdings Limited (the ''Company'') and its subsidiaries (together, the ''Group'') set out on pages I-4 to I-64, which comprises the consolidated statements of financial position as at 31 December 2019, 2020 and 2021, the statement of financial position of the Company as at 31 December 2021 and, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021 (the ''Track Record Period'') and a summary of significant accounting policies and other explanatory information (together, the ''Historical Financial Information''). The Historical Financial Information set out on pages I-4 to I-64 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated **[REDACTED]** (the ''Document'') in connection with the initial **[REDACTED]** of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial*

Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2021 and the consolidated financial position of the Group as at 31 December 2019, 2020 and 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period. No dividends have been paid by the Company since its date of incorporation in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
[REDACTED]

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA (''Underlying Financial Statements'').

The Historical Financial Information is presented in Renminbi (''RMB'') and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(a) Consolidated Statements of Comprehensive Income

		Year ended 31 December		
		2019	2020	2021
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	5	312,800	318,346	370,311
Cost of sales	6	(247,050)	(248,236)	(288,522)
Gross profit		65,750	70,110	81,789
Selling expenses	6	(8,133)	(7,153)	(10,123)
Administrative expenses	6	(16,985)	(15,700)	(32,389)
Net impairment (losses)/reversal of impairment on financial assets	3.1.2	(2,041)	(1,755)	474
Other income	8	1,549	3,347	1,972
Other gains — net	9	44	451	100
Operating profit		40,184	49,300	41,823
Finance income		214	236	1,070
Finance costs		(1,361)	(1,171)	(825)
Finance (costs)/income — net	10	(1,147)	(935)	245
Profit before income tax		39,037	48,365	42,068
Income tax expense	11	(4,740)	(6,194)	(6,381)
Profit for the year		34,297	42,171	35,687
Other comprehensive income for the year		—	—	—
Total comprehensive income for the year attributable to				
Owners of the Company		34,297	42,171	35,687
Profit attributable to				
Owners of the Company		34,297	42,171	35,687
Earnings per share attributable to the owners of the Company				
Basic and diluted (RMB)	12	34,297	42,171	35,687

(b) Consolidated Statements of Financial Position

		As at 31 December		
		2019	2020	2021
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*14*	30,220	27,328	24,362
Right-of-use assets	*15*	3,284	3,216	3,119
Intangible assets	*16*	388	258	133
Deferred income tax assets	*17*	812	1,061	993
Prepayment	*22*	58	—	—
		34,762	31,863	28,607
Current assets				
Inventories	*19*	40,701	37,438	50,099
Trade receivables	*20*	148,525	142,418	145,076
Bills receivable	*21*	32,600	9,228	—
Prepayments and other receivables	*22*	1,147	614	5,106
Amount due from a related party	*31(c)(ii)*	1,550	—	—
Restricted cash	*23(b)*	8,908	68,450	6,260
Cash and cash equivalents	*23(a)*	26,535	37,559	58,578
		259,966	295,707	265,119
Total assets		294,728	327,570	293,726

		As at 31 December		
		2019	**2020**	**2021**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY				
Equity attributable to owner of the Company				
Share capital	*24*	—	—	—
Other reserves	*25*	69,398	73,615	77,183
Retained earnings		31,103	29,567	23,814
Total equity		100,501	103,182	100,997
LIABILITIES				
Non-current liabilites				
Deferred income	*28*	1,752	1,710	1,668
Current liabilities				
Trade and other payables	*26*	149,416	199,632	128,258
Bank borrowings	*27*	24,545	21,532	10,017
Dividends payable	*31(c)(i)*	17,401	—	37,872
Lease liabilities	*15*	42	—	43
Amounts due to related parties	*31(c)(iii)*	—	—	13,051
Current income tax liabilities		1,071	1,514	1,820
		192,475	222,678	191,061
Total liabilities		194,227	224,388	192,729
Total equity and liabilities		294,728	327,570	293,726
Net current assets		67,491	73,029	74,058

(c) Statement of Financial Position of the Company

	Note	**As at 31 December 2021** *RMB'000*
ASSETS		
Non-current assets		
Interests in subsidiaries	*32*	84,728
Current assets		
Prepayments	*22*	3,760
Total assets		88,488
LIABILITIES		
Current liabilities		
Other payables	*26*	1,851
Amount due to a related party		5,496
Amount due to a subsidiary		9,023
Total liabilities		16,370
EQUITY		
Equity attributable to owner of the Company		
Share capital	*24*	—
Other reserves	*25*	84,728
Accumulated losses		(12,610)
Total equity		72,118
Total equity and liabilities		88,488
Net current liabilities		12,610

(d) Consolidated Statements of Changes in Equity

	Attributable to the owners of the Company			
	Share capital *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
As at 1 January 2019	—	65,968	42,766	108,734
Comprehensive income				
— Profit for the year	—	—	34,297	34,297
— Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	34,297	34,297
Appropriation to statutory reserve *(Note 25)*	—	3,430	(3,430)	—
Dividends *(Note 13)*	—	—	(42,530)	(42,530)
As at 31 December 2019	—	69,398	31,103	100,501
As at 1 January 2020	—	69,398	31,103	100,501
Comprehensive income				
— Profit for the year	—	—	42,171	42,171
— Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	42,171	42,171
Appropriation to statutory reserve *(Note 25)*	—	4,217	(4,217)	—
Dividends *(Note 13)*	—	—	(39,490)	(39,490)
As at 31 December 2020	—	73,615	29,567	103,182
As at 1 January 2021	—	73,615	29,567	103,182
Comprehensive income				
— Profit for the year	—	—	35,687	35,687
— Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	35,687	35,687
Loan capitalisation *(Note 31(b))*	—	74,693	—	74,693
Deemed distributions to the shareholders of the Company *(Note 25(d))*	—	(74,693)	—	(74,693)
Appropriation to statutory reserve *(Note 25)*	—	3,568	(3,568)	—
Dividends *(Note 13)*	—	—	(37,872)	(37,872)
As at 31 December 2021	—	77,183	23,814	100,997

(e) Consolidated Statements of Cash Flows

	Note	Year ended 31 December 2019 RMB'000	2020 RMB'000	2021 RMB'000
Cash flows from operating activities				
Cash generated from operations	*29(a)*	28,898	76,534	33,565
Interest received		214	236	1,070
Income tax paid		(4,697)	(6,000)	(6,007)
Net cash generated from operating activities		24,415	70,770	28,628
Cash flows from investing activities				
Assets-related government grants received	*28*	1,005	—	—
Proceeds from disposal of property, plant and equipment		283	—	1,004
Purchase of property, plant and equipment		(2,569)	(555)	(1,275)
Purchase of financial assets at fair value through profit or loss ("FVPL")		(8,000)	(169,100)	(215,000)
Proceeds from disposal of financial assets at FVPL		8,000	169,100	215,000
Dividend income from financial assets at FVPL	*9*	22	448	308
Net cash (used in)/generated from investing activities		(1,259)	(107)	37
Cash flows from financing activities				
Loan received from shareholders	*31(b)*	—	—	82,261
Deemed distributions to the shareholders of the Company	*25(d)*	—	—	(74,693)
Proceeds from bank borrowings		31,500	21,500	15,000
Repayments of bank borrowings		(16,500)	(24,500)	(26,500)
Interest paid on bank borrowings		(1,330)	(1,183)	(840)
Dividends paid		(33,771)	(55,341)	—
Payment of lease liabilities		(75)	(114)	(4)
Interest paid on lease liabilities		(2)	(1)	—
Payment for **[REDACTED]** expenses		—	—	(2,911)
Net cash used in financing activities		(20,178)	(59,639)	(7,687)
Net increase in cash and cash equivalents		2,978	11,024	20,978
Cash and cash equivalents at beginning of the year		23,557	26,535	37,559
Exchange differences on cash and cash equivalents		—	—	41
Cash and cash equivalents at end of the year		26,535	37,559	58,578

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

WEIli Holdings Limited (the "Company") was incorporated in the Cayman Islands on 21 April 2021 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The address of its registered office is 71 Fort Street, PO Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in manufacturing and sales of cigarette packaging paper (the "**[REDACTED]** Business") in the People's Republic of China (the "PRC").

The directors consider City Ease Limited ("City Ease"), a company incorporated in the British Virgin Islands (the "BVI"), as the ultimate holding company of the Group and Mr. Chen Weizhuang ("Mr. Chen" or the "Controlling Shareholder") as the ultimate controlling shareholder of the Company.

1.2 Reorganisation

Prior to the Reorganisation (as defined below) and during the Track Record Period, the **[REDACTED]** Business was operated by Hubei Qiangda Packaging Industry Co., Ltd. ("Hubei Qiangda"), a limited liability company incorporated in the PRC. Hubei Qiangda was owned by the following persons prior to the Reorganisation and their respective percentage of interest is as follows:

Name of shareholders	Equity interest in %
Mr. Chen	56.5%
Mr. Yu Tianbing ("Mr. Yu")	16.0%
Mr. Hu Haoran ("Mr. Hu")	11.0%
Mr. Wu Bo ("Mr. Wu")	7.0%
Mr. Lu Shunhe ("Mr. Lu")	5.5%
Mr. Lin Huan ("Mr. Lin")	4.0%
	100.0%

In preparation for the **[REDACTED]** and **[REDACTED]** of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**[REDACTED]**"), the Group underwent a reorganisation (the "Reorganisation") to establish the Company as the ultimate holding company of the **[REDACTED]** Business. Details of the Reorganisation are set out below:

1.2.1 Incorporation of City Ease, Yong Ning Limited ("Yong Ning") and Enlighten East Limited ("Enlighten East")

On 31 March 2021, City Ease was incorporated in the BVI with limited liability. On 16 April 2021, City Ease allotted and issued 1 share with a par value of United States Dollars ("USD") 1 as fully paid to Mr. Chen. City Ease then became wholly-owned by Mr. Chen.

On 4 January 2021, Yong Ning was incorporated in the BVI with limited liability. On 16 April 2021, Yong Ning allotted and issued 1 share with a par value of USD1 as fully paid to Mr. Yu. Yong Ning then became wholly-owned by Mr. Yu.

On 8 December 2020, Enlighten East was incorporated in the BVI with limited liability. On 16 April 2021, Enlighten East allotted and issued 3,266 shares, 2,857 shares, 2,244 shares and 1,633 shares with a par value of USD 1 each as fully paid to Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin, respectively, and all the issued shares of Enlighten East were owned as to 32.66% by Mr. Hu, 28.57% by Mr. Wu, 22.44% by Mr. Lu and 16.33% by Mr. Lin, respectively.

1.2.2 Incorporation of the Company

On 21 April 2021, the Company was incorporated in the Cayman Islands with one subscriber share allotted and issued. On the same date, the subscriber share of the Company was transferred to City Ease for a consideration of Hong Kong dollar ("HKD") 0.01, and the Company further allotted and issued 564 shares, 160 shares and 245 shares as fully paid to City Ease, Yong Ning and Enlighten East, respectively. After such allotment and issue of shares, the Company was owned as to approximately 58.25% by City Ease, 16.49% by Yong Ning and 25.26% by Enlighten East.

1.2.3 Incorporation of an offshore subsidiary in the BVI

On 29 March 2021, Shengxi Global Limited ("Shengxi Global") was incorporated in the BVI. On 23 April 2021, Shengxi Global allotted and issued 1 share with a par value of USD 1, credited as fully paid to the Company. Shengxi Global then became a wholly-owned subsidiary of the Company.

1.2.4 Incorporation of an offshore subsidiary in Hong Kong

On 30 April 2021, Hong Kong WEIli Holdings Limited ("Hong Kong WEIli") was incorporated in Hong Kong. On the same date, Hong Kong WEIli allotted and issued 1 share as fully paid to Shengxi Global. Hong Kong WEIli then became a wholly-owned subsidiary of Shengxi Global.

1.2.5 Acquisition of equity interest in Hubei Qiangda by Mr. Lam Wing Chak Victor (the "Pre-**[REDACTED]** ***Investor" or "Mr. Lam")***

On 12 April 2021, Mr. Hu and the Pre-**[REDACTED]** Investor entered into an equity transfer agreement, pursuant to which, the Pre-**[REDACTED]** Investor agreed to acquire 3.00% of equity interest in Hubei Qiangda from Mr. Hu at a consideration of RMB3,927,000. The consideration was agreed by the parties after arm's length commercial negotiation. Upon completion of the transfer, Hubei Qiangda became a foreign-invested enterprise, and its shares were owned as to 56.5% by Mr. Chen, 16% by Mr. Yu, 8% by Mr. Hu, 7% by Mr. Wu, 5.5% by Mr. Lu, 4% by Mr. Lin and 3% by the Pre-**[REDACTED]** Investor.

1.2.6 Acquisition of all equity interest of Hubei Qiangda by Hong Kong WEIli

On 6 May 2021, Hong Kong WEIli acquired all equity interest of Hubei Qiangda from Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu, Mr. Lin and Mr. Lam, respectively, at an aggregate consideration of RMB77,000,000. The considerations were determined by taking into account the valuation of Hubei Qiangda as at 31 December 2020 prepared by an independent valuer. The considerations to Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin were settled in cash and the consideration to Mr. Lam was settled by the Company allotting and issuing 30 shares with a par value of HKD0.01 each of the Company, credited as fully paid, to Mr. Lam.

Upon the completion of the Reorganisation on 6 May 2021, the Company became the holding company of the companies now comprising the Group.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Name of company	Place and date of establishment	Registered/ Issued and paid-up capital	Principal activities and place of operation	Effective equity interest held as at 31 December 2019	2020	2021	Date of this report	Note
Directly owned								
Shengxi Global	BVI, 29 March 2021	USD1	Investment holding, BVI	—	—	100%	100%	(a)
Indirectly owned								
Hong Kong WEIli	Hong Kong, 30 April 2021	HKD1	Investment holding, Hong Kong	—	—	100%	100%	(a)
Hubei Qiangda* (湖北強大包裝實業有限公司)	PRC, 8 June 2011	RMB60,000,000	Manufacturing and sales of cigarette packaging paper, the PRC	—	—	100%	100%	(b)

* The English name of the PRC company referred to in this note represent management's best efforts in translating the Chinese name of this company as no English name has been registered or is available.

(a) No audited financial statements for the years ended 31 December 2019, 2020 and 2021 have been prepared as these companies were newly incorporated or there is no statutory audit requirement under the respective place of incorporation of the subsidiaries.

(b) The statutory financial statements of this subsidiary for the years ended 31 December 2019, 2020 and 2021 were audited by Wuhan Yinuozhicheng CPA Ltd ("Yinuozhicheng"), Yinuozhicheng and Hubei Chengxin CPA Ltd, respectively, which are certified public accountants in the PRC.

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the **[REDACTED]** Business is mainly conducted through Hubei Qiangda under the control of Mr. Chen. Pursuant to the Reorganisation, Hubei Qiangda and the **[REDACTED]** Business are transferred to and held by a subsidiary newly set up by the Company.

The Company and its newly set up subsidiaries had not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a recapitalisation of the **[REDACTED]** Business with no change in management of such business and the ultimate controlling shareholder of the **[REDACTED]** Business remains the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the **[REDACTED]** Business under Hubei Qiangda and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the **[REDACTED]** Business conducted through Hubei Qiangda, with assets and liabilities of the Group recognised and measured at the carrying amounts of the **[REDACTED]** Business for all periods presented.

Intercompany transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with Hong Kong Financial Reporting Standards (''HKFRS'') issued by the HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention, as modified by the financial assets measured at fair value through other comprehensive income (''FVOCI'') and financial assets at FVPL which are carried at fair value.

The preparation of the Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

In preparing the Historical Financial Information, all effective HKFRSs, amendments to standards and interpretations, including but not limited to HKFRS 16 'Leases', which are mandatory for the financial year beginning on 1 January 2021, have been consistently applied by the Group throughout the Track Record Period.

2.1.1 New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been published but are not mandatory for the Track Record Period and have not been early adopted by the Group.

		Effective for annual years beginning on or after
Accounting Guideline 5 (revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-Scope Amendments	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements	Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
Amendments to HKFRS 17	Amendments to HKFRS 17	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Hong Kong Interpretation 5 (2020)	Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction Tax	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Management is in the process of making an assessment of the impact of the above new standards, amendments to standards and interpretations and considered that these new standards, amendments to standards and interpretations will not result in any substantial changes to the Group's existing accounting policies and presentation of the Historical Financial Information of the Group.

2.2 Subsidiaries

2.2.1 Consolidation

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(i) 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 Historical Financial Information are presented in RMB, which is the Company's presentation and functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs — net. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other gains — net.

(iii) Group companies

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

- 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 for each statement of comprehensive income are translated at average exchange rates (unless this 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 dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

On combination, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	5 – 20 years
Machinery	5 – 10 years
Motor vehicles	6 years
Electronic and other equipments	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and included in profit or loss.

2.6 Intangible assets

(i) Patents

Separately acquired patents are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated beneficial period of 3 to 10 years based on the remaining using periods between the acquisition date and the expiry date for acquired patent rights.

(ii) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, which do not exceed 5 years.

(iii) Research and development

Research expenditures are recognised as expenses as incurred. Costs incurred on development projects (relating to the design and developing of new or improved products) are recognised as intangible assets if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures that do not meet these criteria are recognised as expenses or cost of sales when incurred. Development costs previously recognised as expenses or cost of sales are not recognised as an asset in a subsequent period.

During the Track Record Period, all research and development expenditures were recognised in the consolidated statements of comprehensive income as they did not meet the recognition criteria for capitalisation.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

2.8 Investments and other financial assets

(i) Classification

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

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

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

(ii) Recognition and derecognition

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

(iii) Measurement

At initial recognition, the Group measures a financial asset at fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

(iv) Debt instruments

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

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

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

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

(v) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value (either through other comprehensive income or through profit or loss). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

For trade receivables, the expected credit losses are determined based on the Group's historical observed default rates and market credit loss rate over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the Group's historical observed default rates and market credit loss rate are updated and changes in the forward-looking estimates are analysed.

For bills receivable, the expected credit losses are mainly assessed by taking into account the credit rating for issuing financial institutions and is adjusted for forward-looking estimates. At every reporting date, the corresponding default rates are referred adjusted by considering forward-looking factors.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group company or the counterparty.

2.10 Trade and bills receivables

Trade and bills receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and amounts due from issuing financial institutions in respect of bills received from customers to settle trade receivable, respectively. If collection of trade and bills receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and bills receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The Group holds bills receivable with the objective to collect contractual cash flows and to sell bills receivable and therefore measures them subsequently at fair value through OCI. See Note 20 and Note 21 for further information about the Group's accounting for trade and bills receivables and Note 2.8 and 3.1.2 for a description of the Group's impairment policies and impairment of trade and bills receivables.

2.11 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks with maturity date of less than 3 months.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). 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.

2.13 Share capital

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

Where any Group company purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.14 Trade and other payables and dividends payable

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables and dividends payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables and dividends payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn-down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

2.16 Borrowing costs

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

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.

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

2.17 Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

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

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

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

2.18 Employee benefits

(i) Short-term obligation

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligation in the consolidated statement of financial position.

(ii) Pension obligation

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligation of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The Group's contributions to these plans are expensed as incurred.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits.

(iv) Housing fund, medical insurance and other social insurance

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

(v) Bonus entitlements

The expected cost of bonus payments are recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.19 Government grants

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

Government grants relating to income are deferred and recognised in the profit or loss, separately as "other income", over the period necessary to match them with the costs that they are intended to compensate.

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

2.20 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provisions due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Sales of goods

Sales are recognised when control of the products has transferred, being when the products are delivered and accepted and there is no unfulfilled obligation that could affect the customers' acceptance of the products, either on delivery of the products when the products have been placed to the specific location, or when goods are delivered and quality inspected by a customer as the risks of obsolescence and loss are transferred to the customer after quality inspection performed by the customer.

Receivable is recognised when the goods are delivered and accepted, or quality inspected by 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.

For sales to certain customers with a right of return, revenue is recognised after netting off the estimated sales return. Accumulated experience is used to estimate the return rate. A refund liabilities (included in trade and other payables) and a right to the returned goods (including in prepayments and other receivables) are recognised for the products expected to be refunded.

A contract liability is the obligation to transfer products to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers products to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the Group performs under the contract.

(ii) Processing service income

The Group provides processing services to certain customers. Processing service income is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

2.22 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in finance income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.23 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares

2.24 Leases

All land in the PRC is state-owned or collectively-owned and no individual land ownership right exists. The Group acquired the rights to use certain land. The premiums paid for such rights are depreciated over the lease periods of 50 years using the straight-line method. The Group's leasehold land payments meet the definition of right-of-use assets under HKFRS 16 and hence have been recognised as such.

Besides that, the Group leases various offices and a warehouse. Rental contracts for offices and the warehouse are typically made for fixed period of more than one year. 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.

Leases are recognised as right-of-use assets at the date at which the leased assets are available for use by the Group. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets arising from a lease are initially measured on a present value basis.

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

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

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

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Historical Financial Information in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group did not use derivative financial instruments to hedge foreign exchange or other risk exposures.

3.1.1 Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The Group mainly operates in the PRC with majority of the transactions conducted in the functional currency of the respective group entity. The Directors consider the foreign currency risk arising from recognised assets and liabilities to be minimal. Accordingly, no sensitivity analysis is presented for foreign exchange risk. The Group did not hedge against any fluctuation in foreign currency. The Group timely monitors foreign exchange risk and will take measure to minimise foreign exchange risk.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at fixed rates expose the Group to fair value interest rate risk.

For the years ended 31 December 2019, 2020 and 2021, if the interest rate on bank borrowings increased/decreased by 0.5% with all other variables held constant, the Group's post-tax profit for the year would have been approximately RMB83,000, RMB83,000 and RMB66,000 lower/higher, respectively.

During the Track Record Period, the Group did not enter into any interest rate swap to hedge its exposure to cash flow and fair value interest rate risk.

3.1.2 Credit risk

Credit risk mainly arises from cash and cash equivalents, restricted cash, trade and bills receivables, amount due from a related party and other receivables. The Group's maximum exposure to credit risk is the carrying amounts of these assets in the consolidated statement of financial position.

(i) Impairment on cash and cash equivalents and restricted cash

Majority of the Group's cash and cash equivalents and restricted cash are placed in those banks incorporated in the PRC which are reputable local listed commercial banks or state-owned banks. While cash and cash equivalents and restricted cash were also subject to the impairment requirement of HKFRS 9, the identified impairment loss was immaterial as the Group does not expect any losses from non-performance by these banks as they have no default history in the past.

(ii) Impairment on trade and bills receivables

In respect of trade and bills receivables, periodical credit evaluations are performed taking into account the counterparty's financial position, past experience, future economic environment, including but not limited to the economic impact of the unprecedented Corona Virus Disease 2019 ("COVID-19") pandemic, and other factors.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables.

To measure the expected credit losses of trade and bills receivables, trade and bills receivables having similar credit characteristic were grouped based on shared credit risk characteristics. For trade receivables, management collectively assessed the expected credit losses taking into account the history of bad debt losses and market credit loss rate, in respect of those groups of customers. For bills receivable, the expected credit losses were mainly assessed by taking into account the credit rating for issuing financial institutions.

Trade receivables have been grouped into two categories by the Group's management based on shared credit risk characteristics. Receivables from state-owned enterprises, collectively-owned enterprises and companies invested by state-owned or collectively-owned enterprises are grouped as one category and remaining receivables from other customers are classified as another category.

The Group has identified the Gross Domestic Product ("GDP") and Manufacturing Purchasing Managers Index of the PRC in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors, including but not limited to the economic impact of the unprecedented COVID-19 pandemic on the customers' and the regions in which they operate.

Trade receivables

The loss allowance as at 31 December 2019, 2020 and 2021 was determined as follows for trade receivables:

	Current	Up to 180 days past due	181 days to 1 year past due	1-2 years past due	2-3 years past due	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019						
Gross carrying amount — trade receivables	93,390	49,163	7,572	2,040	—	152,165
Expected loss rate	2.01%	2.21%	4.41%	16.72%	N/A	2.39%
Total loss allowance	1,880	1,085	334	341	—	3,640
As at 31 December 2020						
Gross carrying amount — trade receivables	116,061	29,375	1,266	952	86	147,740
Expected loss rate	3.11%	4.37%	5.69%	32.35%	61.63%	3.60%
Total loss allowance	3,604	1,285	72	308	53	5,322
As at 31 December 2021						
Gross carrying amount — trade receivables	129,287	19,668	1,042	—	—	149,997
Expected loss rate	3.21%	3.64%	4.80%	N/A	N/A	3.28%
Total loss allowance	4,156	715	50	—	—	4,921

As at 31 December 2019, 2020 and 2021, approximately 52%, 56% and 50% of the Group's net trade receivables were derived from top five customers.

Movements on the Group's allowance of impairment of trade receivables are as follows:

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	1,609	3,640	5,322
Provision for/(reversal of) loss allowance	2,031	1,682	(401)
At end of the year	3,640	5,322	4,921

Bills receivable

The loss allowance as at 31 December 2019, 2020 and 2021 was determined as follows for bills receivable:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Gross carrying amount — current	32,600	9,300	—
Expected loss rate	0.00%	0.77%	N/A
Total loss allowance	—	72	—

As at 31 December 2019 and 2020, approximately 90% and 99% of the Group's net bills receivable was derived from top five issuing financial institutions, which are all recognised state-owned banks in the PRC.

Movements on the Group's allowance of impairment of bills receivable are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	—	—	72
Provision for/(reversal of) loss allowance	—	72	(72)
At the end of the year	—	72	—

(iii) Impairment on amount due from a related party and other receivables

For amount due from a related party and other receivables, the Group made periodic collective assessment as well as individual assessment on the recoverability based on past experience and forward-looking information including but not limited to the economic impact of the unprecedented COVID-19 pandemic, and other factors.

The Group's other receivables (excluding prepayments, right to the returned goods and recoverable of value added tax) were mainly refundable deposits. The directors were of the view that the expected credit losses are not material as historically they had no history of default and the debtors had a strong capacity to meet its contractual cash flow obligations in the near term.

No provision had been made for amount due from a related party as the directors considered the balance can be fully recovered. The loss allowance as at 31 December 2019, 2020 and 2021 was determined as follows for other receivables:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Gross carrying amount — current	904	509	1,236
Expected loss rate	1.57%	2.94%	1.16%
Total loss allowance	14	15	14

Movements on the Group's allowance of impairment of other receivables are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	4	14	15
Provision for/(reversal of) loss allowance	10	1	(1)
At the end of the year	14	15	14

Trade and bills receivables, amount due from a related party and other receivables are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited to profit or loss. No written-off was made during the Track Record Period.

3.1.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash balances and the availability of funding through committed credit facilities and takes into account all available information on future business environment including among others, the economic impact of the unprecedential COVID-19 pandemic or other unforeseen crisis on the economies of the countries in which the Group and its customers and suppliers operate. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Total contractual cash flows — on demand or less than 1 year	**Carrying amount**
	RMB'000	*RMB'000*
As at 31 December 2019		
Bank borrowings	25,095	24,545
Trade and other payables (excluding other tax payables, employee benefits payable and refund liabilities)	142,210	142,210
Lease liabilities	43	42
Dividends payable	17,401	17,401
	184,749	184,198
As at 31 December 2020		
Bank borrowings	22,089	21,532
Trade and other payables (excluding other tax payables, employee benefits payable and refund liabilities)	188,688	188,688
	210,777	210,220

	Total contractual cash flows — on demand or less than 1 year	Carrying amount
	RMB'000	*RMB'000*
As at 31 December 2021		
Bank borrowings	10,337	10,017
Trade and other payables (excluding other tax payables, employee benefits payable and refund liabilities)	121,711	121,711
Lease liabilities	48	43
Dividends payable	37,872	37,872
Amount due to related parties	13,051	13,051
	183,019	182,694

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, issue new shares or sell assets to reduce debts. The Group monitors capital on the basis of the gearing ratio. This ratio is equal to total liabilities divided by total assets at the end of corresponding year. Besides, the Group's strategy, which was unchanged during the Track Record Period, was to maintain the gearing ratio within 80%.

The gearing ratio at 31 December 2019, 2020 and 2021 were as follows:

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Total liabilities	194,227	224,388	192,729
Total assets	294,728	327,570	293,726
Gearing ratio	66%	69%	66%

3.3 Fair value estimation

The Group's financial instruments are carried at fair value as at the end of the reporting period, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of each reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

There were no transfers between levels 1, 2 and 3 during the Track Record Period. The Group has no financial instruments in level 1.

(a) The financial instruments in level 2

The following table presented the financial instruments in level 2 as at 31 December 2019, 2020 and 2021:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Bills receivable measured at FVOCI *(Note 21)*	32,600	9,228	—

The fair value of financial instruments in level 2 (net of provision for impairment) was estimated by discounting the future contractual cash flows at the current market interest rate that was available to the Group for similar financial instruments.

(b) The financial instruments in level 3

The following table presented the changes in level 3 instruments as at 31 December 2019, 2020 and 2021:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	—	—	—
Additions	8,000	169,100	215,000
Disposals	(8,022)	(169,548)	(215,308)
Dividend income from financial assets at FVPL *(Note 9)*	22	448	308
At the end of the year	—	—	—

During the year ended 31 December 2019, 2020 and 2021, the Group's financial assets at FVPL represented certain non-capital protected wealth management products denominated in RMB and issued by reputable banks in the PRC which primarily invested in listed or unlisted securities and bonds. As these instruments were not traded in active market, their fair values were determined based on the expected rate of return on the Group's investment.

The following table summarises the quantitative information about the significant unobservable inputs used in fair value measurements of level 3 instruments:

Description	Unobservable inputs	Range of inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Investment in wealth management products	Expected rate of return	1.80% — 3.10%	The higher the expected rate of return, the higher the fair value

If the expected rate of return of the fair values of financial assets at FVTPL held by the Group had increased/decreased 10%, the profit before income tax for the years ended 31 December 2019, 2020 and 2021 would have been approximately RMB2,000 higher/lower, RMB45,000 higher/lower and RMB31,000 higher/lower, respectively

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Impairment of trade and bills receivables

The Group's management determines the provision for impairment of trade and bills receivables and the expected lifetime losses are recognised from initial recognition of the assets. For trade receivables, the expected credit losses are determined based on the Group's historical observed default rates and market credit loss rate over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. For bills receivable, the expected credit losses are mainly assessed by taking into account the credit rating for issuing financial institutions and is adjusted for forward-looking estimates. In making the judgement, management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers or issuing financial institutions, actual or expected significant adverse changes in business and customers or issuing financial institutions' financial position including, among others, the economic impact of the unprecedented COVID-19 pandemic on the customers or issuing financial institutions and the regions in which they operate. At every reporting date, historical observed default rates and market credit loss rate are updated (for trade receivables) and the credit rating for issuing financial institutions (for bills receivable) and changes in the forward-looking estimates are analysed by the Group's management, see Note 3.1.2.

(b) Net realisable value of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. These estimates are based on the market condition and the historical experience of selling prices of similar nature. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

(c) Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives. It will write off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

(d) Current and deferred income tax

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimates, such difference will impact the recognition of deferred tax assets and income tax in the period in which such estimates are changed.

5 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in manufacturing and sales of cigarette packaging paper. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. The executive directors of the Company consider that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measures reported to the executive directors for the purpose of resources allocation and performance assessment.

All of the businesses of the Group are carried out in the PRC during the Track Record Period. An analysis of the Group's revenue as well as timing of revenue recognition is as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Goods transferred at point in time			
— Sales of cigarette packaging paper	309,759	314,352	370,224
Services transferred over time			
— Processing service income	3,041	3,994	87
	312,800	318,346	370,311

During the years ended 31 December 2019, 2020 and 2021, revenue derived from customers who accounted for more than 10% of total revenue were set out below.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Customer 1	27%	29%	25%
Customer 2	11%	*	12%
Customer 4	*	13%	*
Customer 5	*	10%	15%
Customer 6	*	11%	14%

* This customer contributed less than 10% of total revenue for the corresponding year.

Unsatisfied performance obligation

The Group does not disclose information about remaining performance obligations as their original expected duration is less than one year as permitted under the practical expedient in accordance with HKFRS 15.

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling expenses and administrative expenses were analysed as follow:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials and goods used	242,675	245,166	287,335
Staff costs *(Note 7)*	12,120	10,376	12,140
Freight charges	4,645	4,105	5,302
Depreciation of property,plant and equipment and right-of-use assets *(Note 14, 15)*	3,268	3,337	3,337
Amortisation of intangible assets *(Note 16)*	130	130	125
Utilities	3,408	3,080	4,265
Travelling and entertainment expenses	2,383	2,076	2,990
Maintenance fees	996	698	368
Tax surcharges	1,220	856	965
Cost of security and cleaning	274	175	130
Office expense	281	312	439
Professional service fees	83	49	117
Short-term lease expenses *(Note 15)*	30	46	30
[REDACTED] expenses	—	—	12,700
Miscellaneous expenses	655	683	791
	272,168	271,089	331,034

Research and development expenses are included in "administrative expenses". Amounts incurred during the Track Record Period are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Research and development expenses	10,713	10,394	13,115

7 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages, bonuses and other benefits (a)	11,479	10,310	11,539
Pension costs — defined contribution plans (a)	641	66	601
	12,120	10,376	12,140

(a) Reduction of pension costs and other benefits

The government assistance have been implemented for the relief of the social insurance in respect of COVID-19. According to the notice issued by the Ministry of Social Affairs (2020) No. 11, in order to minimise the impact of the COVID-19 on social and economic development, the government has reduced the social security fees for medium-sized enterprises from February to December 2020.

(b) Directors’ emoluments

The remuneration paid or payable to the executive directors of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) during the years ended 31 December 2019, 2020 and 2021 was as follows.

Name	Fees and bonus	Salaries and other benefits	Contribution to pension scheme	Total
	RMB’000	*RMB’000*	*RMB’000*	*RMB’000*
Year ended 31 December 2019				
Executive directors				
Mr. Chen	—	—	—	—
Mr. Yu	—	250	21	271
	—	250	21	271
Year ended 31 December 2020				
Executive directors				
Mr. Chen	—	—	—	—
Mr. Yu	—	247	2	249
	—	247	2	249
Year ended 31 December 2021				
Executive directors				
Mr. Chen	—	—	—	—
Mr. Yu	—	260	19	279
	—	260	19	279

(i) Mr. Chen was appointed as director on 21 April 2021 and re-designated as executive director of the Company on 20 May 2021. He also serves as the chairman of the Board of the Company.

(ii) Mr. Yu was appointed as executive director of the Company on 19 July 2021. He is also the chief executive officer of the Group.

(iii) Mr Hu was appointed as non-executive director of the Company on 19 July 2021. Mr. Liu Yimin, Mr. Chen Yeung Tak and Ms. Feng Yuan were appointed as independent non-executive directors of the Company on 2 June 2022. During the years ended 31 December 2019, 2020 and 2021, the non-executive director and independent non-executive directors have not yet been appointed and did not receive directors’ remuneration in the capacity of non-executive directors or independent non-executive directors.

(c) Directors' retirement and termination benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries' undertaking during the years ended 31 December 2019, 2020 and 2021.

No payment was made to the directors as compensation for early termination of appointment during the years ended 31 December 2019, 2020 and 2021.

(d) Consideration provided to their parties for making available directors' services

No payment was made to any former employers of the directors for making available the services of them as a director of the Company during the years ended 31 December 2019, 2020 and 2021.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There were no other loans, quasi-loans and other dealings in favour of the directors, controlled bodies corporate by and connected entities with such directors during the years ended 31 December 2019, 2020 and 2021.

(f) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in the Note 31, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2019, 2020 and 2021.

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2019, 2020 and 2021 included one director, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals during the Track Record Period are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	1,039	1,046	1,295
Pension costs — defined contribution plans	50	4	46
	1,089	1,050	1,341

The emoluments of these remaining individuals of the Group fell within the following bands:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Emolument bands			
Nil to HKD1,000,000	4	4	4

8 OTHER INCOME

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Government grants related to income (a)	276	148	242
Sales of raw and waste materials, net	1,204	3,058	1,561
Amortisation of deferred income (b) and *(Note 28)*	22	42	42
Others	47	99	127
	1,549	3,347	1,972

(a) Government grants relating to income are deferred and recognised in the profit or loss over the period necessary to match them with the expenses that they are intended to compensate. The government grants related to income have been received were mainly to reward for the contribution to the local economic growth.

(b) Government grants relating to the purchase of land use right are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related asset.

9 OTHER GAINS — NET

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Other gains			
— Dividend income from financial assets at FVPL *(Note 3.3(b))*	22	448	308
— Gain on disposal of property,plant and equipment	12	—	4
— Exchange gains	—	—	54
— Others	10	3	75
	44	451	441
Other losses			
— Bank charges on bills receivable discounted to banks	—	—	(339)
— Others	—	—	(2)
	—	—	(341)
Other gains — net	44	451	100

10 FINANCE (COSTS)/INCOME — NET

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
— Interest income on bank deposits and restricted cash	214	236	1,070
Finance costs			
— Interest expenses on bank borrowings	(1,359)	(1,170)	(825)
— Interest expenses on lease liabilities *(Note 15)*	(2)	(1)	—
	(1,361)	(1,171)	(825)
Finance (costs)/income — net	(1,147)	(935)	245

11 INCOME TAX EXPENSE

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
— The PRC income tax	4,717	6,443	6,313
Deferred income tax *(Note 17)*	23	(249)	68
Income tax expense	4,740	6,194	6,381

(a) Cayman Islands and BVI profits tax

The Company is incorporated in the Cayman Islands as an exempted company and is not liable for taxation in the Cayman Islands. The Group's subsidiary incorporated in the BVI is also an exempted company and is not liable for taxation in the BVI.

(b) Hong Kong profits tax

Subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at a rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group did not have estimated assessable profit in Hong Kong during the Track Record Period.

(c) The PRC withholding tax

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. The applicable withholding tax rates of the group company in Hong Kong is 10% after the completion of the Reorganisation (Note 1.2).

(d) The PRC Enterprise Income Tax

Subsidiary incorporated in the PRC has obtained the approvals to become a new and high-technology enterprise and are entitled to a preferential income tax rate of 15% on the estimated assessable profits for each of the Track Record Period.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that has been effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (''Super Deduction''). The additional tax deducting amount of the qualified research and development expenses has been increased from 175% to 200% for manufacturing enterprises, effective from 2021, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in March 2021. The Group has considered the Super Deduction to be claimed for the Group entities in ascertaining their assessable profits during the Track Record Period.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of a PRC subsidiary as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,037	48,365	42,068
Tax calculated at the preferential tax rate of 15%	5,856	7,255	6,310
Expenses not deductible for tax purposes	93	88	2,038
Super deduction for research and development expenses	(1,209)	(1,149)	(1,967)
	4,740	6,194	6,381

12 EARNINGS PER SHARE

(a) Basic earnings per share

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit attributable to owner of the Company *(RMB'000)*	34,297	42,171	35,687
Weighted average number of ordinary shares in issue *(thousand) (Note)*	1	1	1
Basic earnings per share *(in RMB)*	34,297	42,171	35,687

Note: In determining the weighted average number of ordinary shares, the 1,000 shares issued by the Company in 2021 was treated as if they had been in issue since 1 January 2019. The earnings per share calculation has not taken into account the proposed **[REDACTED]** of **[REDACTED]** shares pursuant to the written resolution passed by the shareholders on 2 June 2022 because the proposed **[REDACTED]** has not become effective as of the date of this report.

(b) Diluted earnings per share

For the years ended 31 December 2019, 2020 and 2021, the Company had no dilutive potential shares. Accordingly, diluted earnings per share for the years ended 31 December 2019, 2020 and 2021 are the same as basic earnings per share.

13 DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

Dividends during the years ended 31 December 2019, 2020 and 2021 represented dividends declared by the companies now comprising the Group to the then shareholders of the companies for the years ended 31 December 2019, 2020 and 2021. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Dividends declared	42,530	39,490	37,872

14 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Buildings	**Machinery**	**Motor vehicles**	**Electronic and other equipments**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019					
Cost	17,484	23,981	406	1,220	43,091
Accumulated depreciation	(2,604)	(4,936)	(32)	(425)	(7,997)
Impairment	—	(3,171)	—	—	(3,171)
Net book amount	14,880	15,874	374	795	31,923
Year ended 31 December 2019					
Opening net book amount	14,880	15,874	374	795	31,923
Additions	1,416	104	74	98	1,692
Disposals	—	(271)	—	—	(271)
Depreciation	(1,043)	(1,766)	(93)	(222)	(3,124)
Closing net book amount	15,253	13,941	355	671	30,220
At 31 December 2019					
Cost	18,900	17,731	480	1,318	38,429
Accumulated depreciation	(3,647)	(3,790)	(125)	(647)	(8,209)
Net book amount	15,253	13,941	355	671	30,220

	Buildings	Machinery	Motor vehicles	Electronic and other equipments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2020					
Opening net book amount	15,253	13,941	355	671	30,220
Additions	136	25	—	144	305
Depreciation	(1,090)	(1,773)	(103)	(231)	(3,197)
Closing net book amount	14,299	12,193	252	584	27,328
At 31 December 2020					
Cost	19,036	17,756	480	1,462	38,734
Accumulated depreciation	(4,737)	(5,563)	(228)	(878)	(11,406)
Net book amount	14,299	12,193	252	584	27,328
Year ended 31 December 2021					
Opening net book amount	14,299	12,193	252	584	27,328
Additions	—	1,174	22	67	1,263
Disposals	—	(1,000)	—	—	(1,000)
Depreciation	(1,099)	(1,779)	(106)	(245)	(3,229)
Closing net book amount	13,200	10,588	168	406	24,362
At 31 December 2021					
Cost	19,036	17,930	502	1,512	38,980
Accumulated depreciation	(5,836)	(7,342)	(334)	(1,106)	(14,618)
Net book amount	13,200	10,588	168	406	24,362

As at 31 December 2019 and 2020, buildings with net book value of approximately RMB15,253,000 and RMB14,299,000, respectively, were pledged to secure bank borrowings of the Group (Note 27).

As at 31 December 2021, buildings with net book value of approximately RMB13,200,000 were pledged to secure bank borrowings and bills payable of the Group (Note 26 and Note 27).

Depreciation of the property, plant and equipment was charged to profit or loss as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	2,391	2,452	2,479
Selling expenses	8	8	7
Administrative expenses	538	550	553
Research and development expenses	187	187	190
	3,124	3,197	3,229

15 RIGHT-OF-USE ASSETS — GROUP

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the consolidated statements of financial position

	Leasehold land use right	Offices	Warehouse	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019				
Cost	3,818	128	—	3,946
Accumulated depreciation	(511)	(64)	—	(575)
Net book amount	3,307	64	—	3,371
Year ended 31 December 2019				
Opening net book amount	3,307	64	—	3,371
Additions	—	57	—	57
Depreciation	(77)	(67)	—	(144)
Closing net book amount	3,230	54	—	3,284
At 31 December 2019				
Cost	3,818	185	—	4,003
Accumulated depreciation	(588)	(131)	—	(719)
Net book amount	3,230	54	—	3,284
Year ended 31 December 2020				
Opening net book amount	3,230	54	—	3,284
Additions	—	72	—	72
Depreciation	(77)	(63)	—	(140)
Closing net book amount	3,153	63	—	3,216
At 31 December 2020				
Cost	3,818	257	—	4,075
Accumulated depreciation	(665)	(194)	—	(859)
Net book amount	3,153	63	—	3,216

	Leasehold land use right	Offices	Warehouse	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2021				
Opening net book amount	3,153	63	—	3,216
Additions	—	—	47	47
Contract termination	—	(36)	—	(36)
Depreciation	(77)	(27)	(4)	(108)
Closing net book amount	3,076	—	43	3,119
At 31 December 2021				
Cost	3,818	221	47	4,086
Accumulated depreciation	(742)	(221)	(4)	(967)
Net book amount	3,076	—	43	3,119

As at 31 December 2019 and 2020, leasehold land use right with net book value of approximately RMB3,230,000 and RMB3,153,000, respectively, were pledged to secure bank borrowings of the Group (Note 27).

As at 31 December 2021, leasehold land use right with net book value of approximately RMB3,076,000, were pledged to secure bank borrowings and bills payable of the Group (Note 26 and Note 27).

	As at 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Lease liabilities			
Current	42	—	43

(b) Amounts recognised in the consolidated statements of comprehensive income

	Year ended 31 December		
	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*
Depreciation charge of right-of-use assets			
Land use right	77	77	77
Offices	67	63	27
Warehouse	—	—	4
	144	140	108
Interest expense (included in finance cost) *(Note 10)*	2	1	—
Expense relating to short-term leases (included in cost of sales and selling expenses) *(Note 6)*	30	46	30

The total cash outflow for leases in the years ended 31 December 2019, 2020 and 2021 were approximately RMB107,000, RMB161,000, RMB34,000 respectively.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, a warehouse and land . Rental contracts for offices and the warehouse are typically made for fixed periods of more than one year. Rental contract for land is made for fixed periods of 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 other than the security interests in the leased assets that are held by the lessor. Besides leasehold land use right, other leased assets may not be used as security for borrowing purposes.

16 INTANGIBLE ASSETS — GROUP

	Computer software *RMB'000*	**Patents** *RMB'000*	**Total** *RMB'000*
At 1 January 2019			
Cost	174	423	597
Accumulated amortisation	(55)	(24)	(79)
Net book amount	119	399	518
Year ended 31 December 2019			
Opening net book amount	119	399	518
Amortisation	(35)	(95)	(130)
Closing net book amount	84	304	388
At 31 December 2019			
Cost	174	423	597
Accumulated amortisation	(90)	(119)	(209)
Net book amount	84	304	388
Year ended 31 December 2020			
Opening net book amount	84	304	388
Amortisation	(35)	(95)	(130)
Closing net book amount	49	209	258
At 31 December 2020			
Cost	174	423	597
Accumulated amortisation	(125)	(214)	(339)
Net book amount	49	209	258

	Computer software	**Patents**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2021			
Opening net book amount	49	209	258
Amortisation	(35)	(90)	(125)
Closing net book amount	14	119	133
At 31 December 2021			
Cost	174	423	597
Accumulated amortisation	(160)	(304)	(464)
Net book amount	14	119	133

Amortisation of the intangible assets was charged to profit or loss as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Administrative expenses	35	35	35
Research and development expenses	95	95	90
	130	130	125

17 DEFERRED INCOME TAX — GROUP

(a) Deferred taxation is calculated on temporary differences under the liability method using the applicable income tax rate. No deferred tax assets and liabilities are offset as there were no balances of deferred income tax liabilities as at 31 December 2019, 2020 and 2021. The analysis of deferred income tax assets was as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax assets			
— to be recovered within 12 months	9	2	5
— to be recovered after more than 12 months	803	1,059	988
	812	1,061	993

The net movements on the deferred income tax were as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	835	812	1,061
(Charged)/credited to profit or loss	(23)	249	(68)
At the end of the year	812	1,061	993

(b) The movements in deferred income tax assets during the years ended 31 December 2019, 2020 and 2021, were as follows:

	Deferred income tax assets				
	Provision for loss allowance	**Impairment for property, plant and equipment**	**Deferred income**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	242	476	115	2	835
(Charged)/credited to profit or loss *(Note 11)*	306	(476)	148	(1)	(23)
At 31 December 2019 and 1 January 2020	548	—	263	1	812
(Charged)/credited to profit or loss *(Note 11)*	264	—	(7)	(8)	249
At 31 December 2020 and 1 January 2021	812	—	256	(7)	1,061
(Charged)/credited to profit or loss *(Note 11)*	(72)	—	(6)	10	(68)
At 31 December 2021	740	—	250	3	993

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on remittance of dividends in respect of profits earned by the Company's PRC subsidiary at the applicable tax rate of 10%.

As at 31 December 2021, deferred income tax liabilities of RMB3,651,000 have not been recognised for the withholding tax that would be payable on the unremitted earnings of RMB36,512,000 of subsidiary in the PRC based on the profits for the year ended 31 December 2021. Deferred income tax liability is not recognised where the timing of the reversal of the temporary difference is controlled by the Group and the directors have confirmed that such earnings will not be distributed out of the PRC in the foreseeable future.

18 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Group			
Financial assets			
Financial assets at amortised cost			
— Trade receivables	148,525	142,418	145,076
— Other receivables	890	494	1,222
— Cash and cash equivalents	26,535	37,559	58,578
— Restricted cash	8,908	68,450	6,260
— Amount due from a related party	1,550	—	—
Bills receivable measured at FVOCI	32,600	9,228	—
	219,008	258,149	211,136
Financial liabilities			
Financial liabilities at amortised cost			
— Bank borrowings	24,545	21,532	10,017
— Trade and other payables (excluding other tax payables, employee benefits payable and refund liabilities)	142,210	188,688	121,711
— Lease liabilities	42	—	43
—Amount due to related parties	—	—	13,051
—Dividends payable	17,401	—	37,872
	184,198	210,220	182,694

	As at 31 December 2021
	RMB'000
Company	
Financial liability	
Financial liability at amortised cost	
— Amount due to a related party	5,496
— Amount due to a subsidiary	9,023
— Other payables (excluding other tax payables and employee benefits payable)	1,851
	16,370

The Group's exposure to various risks associated with the financial instruments is described in Note 3. The maximum exposure to credit risk at the end of the reporting period was the carrying amount of each class of financial assets mentioned above.

19 INVENTORIES — GROUP

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	10,778	14,202	13,506
Finished goods	29,840	23,038	36,315
Packaging materials and others	83	198	278
	40,701	37,438	50,099

Cost of inventories included in cost of sales and research and development expenses during the years ended 31 December 2019, 2020 and 2021 were as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	245,804	246,798	287,843
Research and development expenses	8,245	7,913	10,787
	254,049	254,711	298,630

20 TRADE RECEIVABLES — GROUP

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables (a)	152,165	147,740	149,997
Less: allowance for impairment (b)	(3,640)	(5,322)	(4,921)
Trade receivables — net	148,525	142,418	145,076

(a) The carrying amounts of trade receivables were denominated in RMB. The credit period for trade receivables was generally 60 to 180 days from the date of billing during the Track Record Period. The ageing analysis of trade receivables based on invoice date was as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	48,390	44,111	66,606
31 to 90 days	44,455	68,682	57,017
91 to 180 days	39,544	32,004	22,915
181 days to 1 year	17,736	1,905	2,823
Over 1 year	2,040	1,038	636
	152,165	147,740	149,997

(b) Movements of the Group's allowance for impairment of trade receivables are shown in Note 3.1.2.

21 BILLS RECEIVABLE — GROUP

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Bills receivable measured at FVOCI	32,600	9,228	—

As at 31 December 2019, 2020 and 2021, bills receivable were all bank acceptance, and a total approximately amount of RMB50,529,000, RMB48,738,000 and RMB133,456,000 that have been endorsed to the suppliers, and a total approximately amount of nil, nil and RMB22,050,000 that have been discounted to the bank had been derecognised as the Directors considered substantially all risks and rewards of ownership of those bills receivable have been transferred before maturity. As the bills receivable are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, they are measured at FVOCI.

Information about the methods and assumptions used in determining fair value is provided in Note 3.3(a).

As at 31 December 2019 and 2020, bills receivable were denominated in RMB with maturity within 1 to 12 months.

As at 31 December 2019 and 2020, net book value of bills receivable pledged to secure bank acceptance bills payable of the Group (Note 26) were as follow:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Net book value of bills receivable pledged to secure bills payable	—	1,985	—

22 PREPAYMENTS AND OTHER RECEIVABLES — GROUP AND COMPANY

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Group			
Included in non-current asset			
Prepayment for property, plant and equipment	58	—	—
Included in current asset			
Other receivables	904	509	1,236
Prepayments for purchase and materials	191	60	56
Right to the returned goods	66	56	68
Recoverable of value added tax	—	4	—
[REDACTED] expenses to be capitalised upon the **[REDACTED]**	—	—	3,461
Prepayments for **[REDACTED]** expenses	—	—	299
	1,161	629	5,120
Less: loss allowance	(14)	(15)	(14)
	1,147	614	5,106
	1,205	614	5,106

	As at 31 December 2021
	RMB'000
Company	
[REDACTED] expenses to be capitalised upon the **[REDACTED]**	3,461
Prepayments for **[REDACTED]** expenses	299
	3,760

23 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH — GROUP

(a) Cash and cash equivalents

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks	26,535	37,559	58,578

Cash and cash equivalents of the Group were denominated in the following currencies:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
RMB	26,535	37,559	55,679
HKD	—	—	2,899
	26,535	37,559	58,578

The effective interest rates of cash and cash equivalent ranged from 0.001% to 1.950% throughout the Track Record Period.

(b) Restricted cash

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Restricted cash	8,908	68,450	6,260

The Group's restricted cash were with maturity within one year, denominated in RMB and represented bank deposits pledged to banks for the issuance of bank acceptance bills payable in respect of future settlement to suppliers of the Group (Note 26).

The effective interest rates of restricted cash ranged from 0.30% to 2.03% throughout the Track Record Period.

24 SHARE CAPITAL — GROUP AND COMPANY

	Number of shares	**Nominal value of shares**	**Equivalent nominal value of shares**
		HKD'000	*RMB'000*
Group and Company			
Issued:			
As at 21 April 2021 (date of incorporation)	1	—	—
Issuance of ordinary shares to shareholder of the Company in connection with the Reorganisation *(Note 1.2)*	999	—	—
As at 31 December 2021	1,000	—	—

The Company was incorporated in the Cayman Islands on 21 April 2021 with authorised share capital of HKD380,000 divided into 38,000,000 shares of a par value of HKD0.01 each.

Pursuant to the written resolution passed by the shareholders on 2 June 2022, authorised share capital increased to HKD100,000,000, divided into 10,000,000,000 shares by the creation of additional 9,962,000,000 shares, all of which shall rank equally in all respects with the existing shares in issue with immediate effect. No share issued by the Group after 31 December 2021 and up to the date of this report.

25 OTHER RESERVES — GROUP AND COMPANY

	Statutory reserve *RMB'000* *(a)*	Capital reserve *RMB'000* *(b)&(d)*	FVOCI reserve *RMB'000* *(c)*	Others *RMB'000*	Total *RMB'000*
Group					
As at 1 January 2019	5,967	60,000	—	1	65,968
Appropriation to statutory reserve	3,430	—	—	—	3,430
Fair value gain of bills receivable measured at FVOCI	—	—	—	—	—
As at 31 December 2019	9,397	60,000	—	1	69,398
As at 1 January 2020	9,397	60,000	—	1	69,398
Appropriation to statutory reserve	4,217	—	—	—	4,217
Fair value gain of bills receivable measured at FVOCI	—	—	—	—	—
As at 31 December 2020	13,614	60,000	—	1	73,615
As at 1 January 2021	13,614	60,000	—	1	73,615
Appropriation to statutory reserve	3,568	—	—	—	3,568
Loan capitalisation *(Note 31(b))*	—	74,693	—	—	74,693
Deemed distributions to the shareholders of the Company *(Note (d))*	—	(74,693)	—	—	(74,693)
Fair value gain of bills receivable measured at FVOCI	—	—	—	—	—
As at 31 December 2021	17,182	60,000	—	1	77,183

	Capital reserve *RMB'000*
Company	
As at 21 April 2021 (date of incorporation of the Company)	—
Loan capitalisation *(Note 31(b))*	74,693
Net assets value of subsidiaries pursuant to the Reorganisation *(Note 1.2)*	10,035
As at 31 December 2021	84,728

(a) Statutory reserve

In accordance with relevant rules and regulations in the PRC and the Articles of Association of Hubei Qiangda, Hubei Qiangda is required to transfer at least 10% of its profit after taxation calculated under the PRC accounting standards and regulations to a statutory reserve fund, until the accumulated total of the fund reaches 50% of its registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' accumulated losses or to increase the capital of Hubei Qiangda.

(b) Capital reserve

The balance of capital reserve as at 1 January 2019 of the Group represents the aggregate of the paid-up share capital of the subsidiaries now comprising the Group before the Reorganisation.

(c) Bills receivable measured at FVOCI

As at 31 December 2019, 2020 and 2021, the Group's bills receivable were measured at FVOCI (Note 21). During the Track Record Period, the fair value losses of the Group's bills receivable were accumulated within the FVOCI reserve in equity. The accumulated fair value losses in FVOCI reserve were reclassified to profit or loss when the relevant bills receivable were derecognised or impaired.

Movements of the reserve in relation to bills receivable measured as FVOCI were as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	—	—	—
Fair value movement	—	72	(72)
Loss allowance movement	—	(72)	72
At the end of the year	—	—	—

(d) As disclosed in Note 1.2.6, Hong Kong WEIli acquired all equity interest of Hubei Qiangda from the then shareholders during the Reorganisation. The cash considerations of amount RMB74,693,000 paid to Mr. Chen, Mr. Yu, Mr. Hu, Mr. Wu, Mr. Lu and Mr. Lin for 97% equity is deemed as distribution to the equity holders.

26 TRADE AND OTHER PAYABLES — GROUP AND COMPANY

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Group			
Trade payables (a)	129,424	112,522	106,627
Bills payable (b)	12,258	75,800	12,520
Employee benefits payable	1,959	1,934	1,942
Other accrued expenses	528	366	2,564
Refund liabilities	84	72	86
Other tax payable excluding income tax liabilities	5,163	8,938	4,519
	149,416	199,632	128,258

	As at 31 December 2021
	RMB'000
Company	
Other accrued expenses	1,851

(a) Ageing analysis of trade payables based on invoice date was as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Up to 30 days	38,346	51,911	37,809
31 to 90 days	59,406	44,479	44,311
91 to 180 days	22,173	10,295	16,138
181 days to 1 year	8,815	5,269	6,632
Over 1 year	684	568	1,737
	129,424	112,522	106,627

(b) As at 31 December 2019, the bills payable was secured by bank deposits (Note 23), and was guaranteed by Mr. Yu (Note 31).

As at 31 December 2020, the bills payable was secured by bank deposits and bills receivable pledged to banks (Note 21 and Note 23), and was guaranteed by Mr. Yu (Note 31) and a staff of the Group.

As at 31 December 2021, the bills payable was secured by bank deposits, the Group's buildings (Note 14) and land-use rights (Note 15).

(c) Trade and other payables of the Group were denominated in the following currencies:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
RMB	149,416	199,632	126,961
HKD	—	—	1,297
	149,416	199,632	128,258

27 BANK BORROWINGS — GROUP

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings — secured	24,545	21,532	10,017

As at 31 December 2019, 2020 and 2021, the Group's bank borrowings were secured by the Group's buildings (Note 14) and land-use rights (Note 15).

The Group's bank borrowings as at 31 December 2019 were guaranteed by Mr. Chen, Mr. Yu and his spouse. The Group's bank borrowings as at 31 December 2020 were guaranteed by Mr. Chen, Mr Hu, Mr. Yu and his spouse, the guarantees were subsequently released on or before 18 November 2021 (Note 31).

The Group's bank borrowings were to be settled within one year and denominated in RMB. The weighted average effective interest rates of the Group's bank borrowings as at 31 December 2019, 2020 and 2021 were 6.93%, 6.00% and 5.32% per annum, respectively.

As at 31 December 2019, 2020 and 2021, the Group had no unutilised bank facility.

28 DEFERRED INCOME — GROUP

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Government grants related to purchase of land use right	1,752	1,710	1,668

Government grants related to purchase of land use right are recorded as deferred income and amortised in the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the land use right.

The movements of the above government grants during the Track Record Period are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	769	1,752	1,710
Granted during the year	1,005	—	—
Amortised as income *(Note 8)*	(22)	(42)	(42)
At the end of the year	1,752	1,710	1,668

29 CASH FLOW INFORMATION

(a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations was as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,037	48,365	42,068
Adjustments for:			
— Depreciation of property, plant and equipment	3,124	3,197	3,229
— Depreciation of right-of-use assets	144	140	108
— Amortisation of the intangible assets	130	130	125
— Amortisation of deferred income	(22)	(42)	(42)
— Net impairment losses/(reversal of impairment) on financial assets	2,041	1,755	(474)
— Interest income	(214)	(236)	(1,070)
— Interest expenses on bank borrowings	1,359	1,170	825
— Interest expenses on lease liabilities	2	1	—
— Dividend income from financial assets at FVPL	(22)	(448)	(308)
— Gain on disposal of property, plant and equipment	(12)	—	(4)
— Net exchange gains	—	—	(54)
	45,567	54,032	44,403
Changes in working capital:			
— Inventories	2,764	3,263	(12,661)
— Trade receivables	(27,028)	4,425	(2,257)
— Bills receivable	(28,600)	23,300	9,300
— Prepayments and other receivables	774	532	(1,130)
— Restricted cash	9,532	(59,542)	62,190
— Trade and other payables	25,702	50,524	(71,776)
— Amount due from a related party	187	—	—
— Amount due to related parties	—	—	5,496
Cash generated from operations	28,898	76,534	33,565

(b) Significant non-cash financing activities

During the year ended 31 December 2020, the dividend payable to Mr. Lin was settled by offsetting the amount due from Mr. Lin without cash outflow in the amount of RMB1,550,000 (Note 31(b)).

During the year ended 31 December 2021, loan due to shareholders was capitalised by increasing the reserve of the Company (Note 31(b)), without cash outflow in the amount of approximately RMB74,693,000.

(c) Net (debt)/cash reconciliation

Set out below was an analysis of net (debt)/cash and the movements in net debt for each of the years/periods presented.

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	26,535	37,559	58,578
Bank borrowings — repayable within one year	(24,545)	(21,532)	(10,017)
Lease liabilities	(42)	—	(43)
Dividends payable	(17,401)	—	(37,872)
Amount due to related parties — non-trade nature *(Note 31(c)(iii))*	—	—	(7,555)
Net (debt)/cash	(15,453)	16,027	3,091
Cash and cash equivalents	26,535	37,559	58,578
Dividends payable	(17,401)	—	(37,872)
Amount due to related parties — non-trade nature	—	—	(7,555)
Gross debt — fixed interest rates	(20,040)	—	—
Gross debt — variable interest rates	(4,547)	(21,532)	(10,060)
Net (debt)/cash	(15,453)	16,027	3,091

	Cash and cash equivalents	Amount due to related parties- non-trade nature	Bank borrowings due within one year	Lease liabilities	Dividends payable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash as at 1 January 2019	23,557	—	(9,516)	(60)	(8,642)	5,339
Cash flows — principal	2,978	—	(15,000)	75	33,771	21,824
Cash flows — interest	—	—	1,330	2	—	1,332
Other non-cash movements						
— Accrued interest expenses	—	—	(1,359)	(2)	—	(1,361)
— Acquisition — leases	—	—	—	(57)	—	(57)
— Dividends declared	—	—	—	—	(42,530)	(42,530)
Net debt as at 31 December 2019 and 1 January 2020	26,535	—	(24,545)	(42)	(17,401)	(15,453)
Cash flows — principal	11,024	—	3,000	114	55,341	69,479
Cash flows — interest	—	—	1,183	1	—	1,184
Other non-cash movements						
— Accrued interest expenses	—	—	(1,170)	(1)	—	(1,171)
— Acquisition — leases	—	—	—	(72)	—	(72)
— Dividends declared	—	—	—	—	(39,490)	(39,490)
— Offsetted against dividends payable and amount due from a related party	—	—	—	—	1,550	1,550
Net cash as at 31 December 2020 and 1 January 2021	37,559	—	(21,532)	—	—	16,027
Cash flows — principal	20,978	(82,261)	11,500	4	—	(49,779)
Cash flows — interest	—	—	840	—	—	840
Other non-cash movements						
— Accrued interest expenses	—	—	(825)	—	—	(825)
— Acquisition — leases	—	—	—	(47)	—	(47)
— Loan capitalisation	—	74,693	—	—	—	74,693
— Dividends declared	—	—	—	—	(37,872)	(37,872)
— Net exchange gain	41	13	—	—	—	54
Net cash as at 31 December 2021	58,578	(7,555)	(10,017)	(43)	(37,872)	3,091

30 COMMITMENT

The Group's significant capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	167	—	—

31 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

The following individuals are related parties of the Group that had significant balances and/or transactions as at/during the years ended 31 December 2019, 2020 and 2021:

Name	Relationship
Mr. Chen	Controlling shareholder of the Group
Mr. Yu	Shareholder of the Group
Mr. Lin	Shareholder of the Group
Mr. Hu	Shareholder of the Group
Mr. Lu	Shareholder of the Group
Mr. Wu	Shareholder of the Group
City Ease	Shareholder of the Group
Yong Ning	Shareholder of the Group
Enlighten East	Shareholder of the Group

(b) Significant transaction with related parties

Save as disclosed elsewhere in this report, during the Track Record Period, the Group had the following significant transactions with related parties:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Amount settled by/received from:			
Mr. Lin	187	1,550	—
Mr. Yu	—	2,000	—
Mr. Hu	—	—	5,496
	187	3,550	5,496
Amount repaid to:			
Mr. Yu	—	2,000	—

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Loan received from shareholders:			
City Ease (i)	—	—	43,507
Yong Ning (i)	—	—	12,320
Enlighten East (i)	—	—	19,642
Mr. Hu (iii)	—	—	6,792
	—	—	82,261
Loan capitalised (ii):			
City Ease	—	—	43,507
Yong Ning	—	—	12,320
Enlighten East	—	—	18,866
	—	—	74,693

(i) On 24 June 2021, approximately HKD52,287,000 (RMB43,507,000), HKD14,807,000 (RMB12,320,000), and HKD23,607,000 (RMB19,642,000) was received by the Group, which was a loan to the Company lent by City Ease, Yong Ning, Enlighten East, respectively.

(ii) Balance due to City Ease, Yong Ning, Enlighten East by the Company of approximately HKD52,287,000 (RMB43,507,000), HKD14,807,000 (RMB12,320,000), and HKD22,673,000 (RMB18,866,000) was capitalised by increasing the reserve of the Company by the same amount (without allotting and issuing new shares), pursuant to the resolution passed by the board of directors of the Company on 31 July 2021 (Note 25(d)). The remaining balance due to Enlighten East will be returned to Enlighten East and settled by cash on or before the **[REDACTED]**.

(iii) On 1 August 2021, Mr. Hu and the Group had entered into a loan agreement, pursuant to which, loan received from Mr. Hu of approximately HKD8,306,000 (RMB 6,792,000) was unsecured, interest free and repayable on demand.

All transactions mentioned above will not continue after the **[REDACTED]**.

(c) Balance with related parties

(i) Dividends payable

As at 31 December 2019, 2020 and 2021, the Group's dividends payable to related parties was as follows.

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Non-trade			
Mr. Chen	9,402	—	21,397
Mr. Yu	2,663	—	6,060
Mr. Hu	1,831	—	4,166
Mr. Wu	1,165	—	2,651
Mr. Lu	1,355	—	2,083
Mr. Lin	985	—	1,515
	17,401	—	37,872

Dividends payable was unsecured, interest-free, repayable on demand and denominated in RMB. In addition, it was resolved to settle the dividend payables on or before 30 May 2022.

(ii) Amount due from a related party

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Non-trade			
Mr. Lin	1,550	—	—

The amount due to Mr. Lin was unsecured, interest-free, receivable on demand and denominated in RMB.

(iii) Amounts due to related parties

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Non-trade			
— Enlighten East *(Note 31(b)(ii))*	—	—	763
— Mr. Hu *(Note 31(b)(iii))*	—	—	6,792
	—	—	7,555
Trade			
— Mr. Hu	—	—	5,496
	—	—	13,051

The amounts due to related parties were unsecured, interest-free, repayable on demand and denominated in HKD. All balances will be settled on or before the **[REDACTED]**.

(d) Key management compensation

Key management includes chairman, executive directors and senior management of the Group.

The compensation paid or payable to the key management during the Track Record Period, excluding those paid to the executive directors which has been disclosed in Note 7, was shown as below.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries, bonus, housing fund, medical insurance and other social insurance	564	563	639
Pension costs — defined contribution plan	34	3	35
	598	566	674

(e) Bank borrowings guaranteed by related parties

The Group's bank borrowings as at 31 December 2019 were guaranteed by Mr. Chen, Mr. Yu and his spouse.

The Group's bank borrowings as at 31 December 2020 were guaranteed by Mr. Chen, Mr Hu, Mr. Yu and his spouse.

All guarantees on bank borrowings were released on or before 18 November 2021.

(f) Bills payable guaranteed by a related party

The Group's bills payable as at 31 December 2019 and 2020 were guaranteed by Mr. Yu.

All guarantees on bills payable were released on or before 31 May 2021.

32 INTERESTS IN SUBSIDIARIES — COMPANY

	Year ended 31 December 2021
	RMB'000
Amounts due from a subsidiary *(a)*	74,693
Investments in a subsidiary *(b)*	10,035
	84,728

(a) It represents the amounts due from Hong Kong WEIli with no fixed repayment terms and is considered as a part of the investment.

(b) It is stated at the consolidated net assets value of Shengxi Global amounting to approximately RMB10,035,000 upon the completion of the Reorganisation.

33 SUBSEQUENT EVENTS

Save as disclosed elsewhere in the report, the Group has the following subsequent events after the balance sheet date:

(i) Pursuant to the resolutions passed by the shareholders on 2 June 2022, the authorised shares of the Company has been increased to 10,000,000,000 shares of HKD0.01 par value each.

(ii) Pursuant to the resolutions passed by the shareholders on 2 June 2022, an aggregate of **[REDACTED]** shares will be issued and allotted, immediately prior to the **[REDACTED]**, to the shareholders whose names appear on the register of members of the Company as of 2 June 2022 on a pro rata basis.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2021 and up to the date of this report.