MIKO INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1247

2022

ANNUAL REPORT


Miko International
redkids
红孩儿

CONTENTS

CORPORATE INFORMATION

BOARD AND COMMITTEES

Executive Directors

Mr. Ding Peiji
Mr. Ding Peiyuan
Ms. Ding Lizhen
Mr. Chan Yi Hsiung (appointed on 22 July 2022)

Independent Non-Executive Directors

Mr. Hung Cho Sing
Mr. Ng Shing Kin (appointed on 5 July 2022)
Mr. Chen Jun (appointed on 31 October 2022)
Mr. Chan Wai Wong (resigned on 31 October 2022)
Mr. Wu Shiming (resigned on 28 June 2022)

Audit Committee

Mr. Ng Shing Kin *(Chairman)*
Mr. Hung Cho Sing
Mr. Chen Jun

Remuneration Committee

Mr. Hung Cho Sing *(Chairman)*
Mr. Chen Jun
Mr. Ding Peiyuan

Nomination Committee

Mr. Chen Jun *(Chairman)*
Ms. Ding Lizhen
Mr. Ng Shing Kin

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES

Mr. Ding Peiji
Mr. Pang Wing Hong

COMPANY SECRETARY

Mr. Pang Wing Hong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PLACE OF BUSINESS IN THE PRC

No. 168, Chong Rong Street
Economic Technology Development Zone
Quanzhou City
Fujian Province 362000
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1601, Ho King Commercial Centre
2–16 Fa Yuen Street
Mong Kok, Kowloon
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3,
Building D, P.O. Box 1586,
Gardenia Court,
Camana Bay, Grand Cayman,
KY1-1100,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Stevenson, Wong & Co
CHIU & Co., Solicitors

INVESTOR RELATIONS CONTACT

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WEBSITE

www.redkids.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Miko International Holdings Limited (the "**Company**"), I hereby present full-year results for the year ended 31 December 2022.

For the full year of 2022, revenue and net loss before taxation of the Group amounted to approximately RMB142.4 million and RMB10.3 million respectively, as compared to revenue and net loss before taxation of approximately RMB136.7 million and RMB25.0 million respectively for the full year of 2021.

The extraordinary outbreak of the COVID-19 pandemic and the globally severely hit the world economy including Mainland China in the year of 2021 and 2022. The economies of the world returned to the normal stage starting from the late of 2022 and early of 2023 with the impact of inflation.

This was a challenging year and overall sales performance increased slightly by 4.2% for the year of 2022 as compared with the 2021 but the gross margin reflected a decrease in margin owing to the pricing strategy of products sold in the year of 2022. Considering the unprecedented challenges and market uncertainty posed by the global health and economic crisis, the Group took immediate actions to preserve cash and strengthen its liquidity during the year. The Group has been managing operating expenses, marketing and promotion cost and finance cost sharply under such tough economy and business environment.

In addition, an indirect wholly-owned subsidiary of the Company has been established in support of the Group's intention to start a new line of business in the supply chain management in Mainland China. The new business will provide a good opportunity for the Group to diversify its business scope and broaden the Group's revenue stream and profitability in the upcoming years. The details of the business plan are disclosed in the announcement of the Company dated 9 August 2022.

CHAIRMAN'S STATEMENT

The outlook of the industry and business in the year of 2023 is at highly positive view in Mainland China from the release of prolonged COVID-19 pandemic atmosphere. The Chinese government made certain measures and changes to stimulate the overall economic environment that would boost up the consumer market growth in Mainland China in the year of 2023.

In the medium to long-term, the Group remains positive about its business and believes that it will bring satisfactory and sustainable returns to the shareholders. The Group continuously remains open to the opportunities for investment that can have sustainable growth going forward.

On behalf of the Board, I would like to express my sincere gratitude to our staff, shareholders and business partners for their support. We will continue with our endeavor to pursue growth, create value and opportunity for our Group and shareholders.

Ding Peiji
Chairman of the Board

28 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The Group's products are primarily marketed through wholesaling to the distributors who operate "redkids" branded in various provinces and municipalities in Mainland China.

The retail industry experienced a declining retail climate that was seriously affected by the outbreak of COVID-19 pandemic in Mainland China for the year of 2021 and 2022. The Group's revenue was unavoidably affected by this challenging business environment despite a progressive relaxation of the one-child policy in Mainland China few years ago. Sales performance for the year of 2022 increased slightly from the online sales even though the weak consumption market affected by the outbreak of the COVID-19 pandemic in Mainland China since 2020. Coupled with a relatively stable in orders received from the distributors, the Group's revenue recorded an increase of about 4.2%, from approximately RMB136.7 million for FY2021 to approximately RMB142.4 million for FY2022.

Sales to distributors continued to account for the majority of the Group's revenue during FY2022. Sales to distributors were approximately RMB142.4 million for FY2022, representing 100% of the Group's revenue, as compared to that of approximately RMB130.1 million or 95.1% for FY2021.

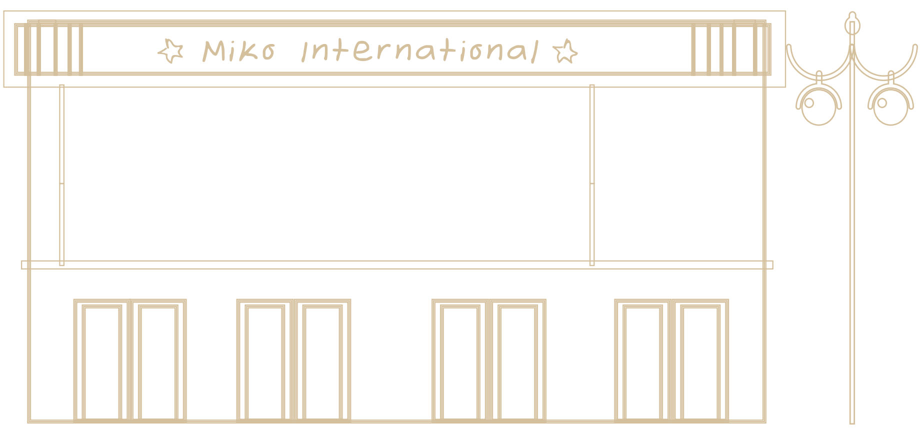
No sales from self-operated stores was recorded for FY2022, as compared to that of approximately RMB6.6 million or 4.9% for FY2021.

Sales from the apparel products segment continued to account for the majority of the Group's revenue during FY2022. Sales were approximately RMB142.4 million for FY2022, representing 100% of the Group's revenue, as compared to that of approximately RMB133.7 million or 97.8% for FY2021.

For the footwear and accessories segment, no sales was recorded for this category as compared to approximately RMB3.0 million for FY2021.

The table below sets forth the sales volume and average wholesale price for the years indicated:

	FY2022	FY2021	% change
Sales volume (million units)	**2.6**	3.8	(31.6)
Average wholesale price (RMB)	**55**	36	52.8



MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the revenue by product/service category for the year indicated:

	FY2022 RMB'000	FY2022 %	FY2021 RMB'000	FY2021 %	% change
Apparel	**142,415**	**100.0**	133,676	97.8	6.5
Footwear and Accessories	**–**	**–**	3,009	2.2	(100.0)
	142,415	**100.0**	136,685	100.0	4.2

The Company primarily market products through the extensive retail network in Mainland China.

The table below sets forth the revenue by sales channels for the years indicated:

	FY2022 RMB'000	FY2022 %	FY2021 RMB'000	FY2021 %	% change
Sales to distributors	**142,415**	**100.0**	130,053	95.1	9.5
Sales from self-operated stores	**–**	**–**	6,632	4.9	(100.0)
	142,415	**100.0**	136,685	100.0	4.2

Cost of Sales

The cost of sales increased by approximately RMB10.0 million or approximately 9.5%, from approximately RMB105.2 million for FY2021 to approximately RMB115.2 million for FY2022. The increase was generally in line with the changes in products mix sales during the year. During FY2022, the Company continued to outsource the production of products which requires special technologies and know-how to OEM factories. As a percentage of cost of sales, purchase from OEM factories accounted for approximately 70% for FY2022 as compared to that of approximately 68% for FY2021.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the gross profit decreased by approximately RMB4.3 million or approximately 13.7%, from approximately RMB31.5 million for FY2021 to approximately RMB27.2 million for FY2022. Gross profit margin decreased by 3.9 percent points, from 23.0% for FY2021 to 19.1% for FY2022.

Other Revenue

Other revenue primarily consisted of interest income from bank deposits of approximately RMB0.2 million (FY2021: approximately RMB0.1 million) and rental income of approximately RMB1.2 million (FY2021: approximately RMB0.9 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Reversal of allowance/(allowance) for Expected Credit Loss on Trade and Other Receivables, Net

Reversal of allowance for expected credit loss on trade and other receivables of approximately RMB1.0 million (FY2021: allowance approximately RMB2.4 million) are recorded resulting from the management of the Company taking into consideration of the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. The Company will continue to conduct comprehensive review of the distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of marketing rebates, salaries and benefits for sales and marketing personnel, and advertising and exhibition expenses for outdoor advertisements. Selling and distribution expenses recorded a decrease of approximately 32.4%, from approximately RMB25.3 million for FY2021 to approximately RMB17.1 million for FY2022. The decrease was resulted from a more stringent control on advertisement and marketing expenses under the current tough business environment.

As a percentage of turnover, selling and distribution expenses were 18.5% and 12.0% for FY2021 and FY2022 respectively.

Administrative and Other Operating Expenses

Administrative and other operating expenses primarily consisted of design and development expenses, salaries and benefits for administrative personnel, professional expenses in relation to legal and financial advisory services and taxes and levies.

Administrative and other operating expenses were approximately RMB19.7 million for FY2022, representing a decrease of approximately RMB0.1 million or a decrease of approximately 0.5% as compared to approximately RMB19.8 million for FY2021.

As a percentage of turnover, administrative and other operating expenses were 14.5% and 13.9% for FY2021 and FY2022 respectively.

Share of Results from an Associate and Impairment Loss on Investment in an Associate

In FY2022, share of profit from an associate of the Group was approximately RMB3.6 million (FY2021: loss of approximately RMB4.4 million).

Impairment loss on investment in an associate was approximately RMB2.3 million in FY2021 and no such impairment loss is required after the assessment in FY2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs decreased by approximately RMB0.7 million, from approximately RMB4.7 million for FY2021 to approximately RMB4.0 million for FY2022.

Income Tax Expenses

No income tax expenses was recognised for FY2022 and FY2021. Currently, the principal subsidiaries of the Group in Mainland China are subject to an enterprise income tax rate of 25%.

Loss for the Year before Taxation

As a result of the foregoing, loss before taxation for FY2022 of approximately RMB10.3 million was recorded as compared to approximately RMB25.0 million for FY2021.

Working Capital Management

The Group possesses sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2022, the cash and cash equivalents, and bank deposits totaled approximately RMB36.7 million (31 December 2021: approximately RMB19.7 million), representing more than 24.4% (31 December 2021: 16.1%) of the total amount of the current assets.

Current ratio and quick ratio were 1.6 times and 1.3 times, respectively, as at 31 December 2022, as compared to 1.9 times and 1.4 times, respectively, as at 31 December 2021.

Inventories

The inventories decreased by approximately RMB8.2 million, from approximately RMB31.1 million as of 31 December 2021 to approximately RMB22.9 million as at 31 December 2022. Inventories mainly comprised raw materials of approximately RMB1.1 million (31 December 2021: approximately RMB1.2 million), work in progress of approximately RMB0.1 million (31 December 2021: approximately RMB0.1 million) and finished goods of approximately RMB21.7 million (31 December 2021: approximately RMB29.8 million). The inventory turnover was 86 days for FY2022 (FY2021: 141 days).

Written down on inventories of approximately RMB2.6 million (2021: approximately RMB1.4 million) is provided due to allowance made for obsolete and slow-moving inventory items as the net realisable value for such inventories based primarily on the estimated subsequent selling prices and salability of inventories.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade Receivables

Trade receivables increased by approximately RMB19.5 million, from approximately RMB65.9 million as of 31 December 2021 to approximately RMB85.4 million as of 31 December 2022.

Trade receivables turnover was 194 days for FY2022 (FY2021: 167 days).

Reversal of allowance for expected credit loss on trade and other receivable, net of approximately RMB1.0 million (2021: allowance approximately RMB2.4 million) is provided resulting from the management of the Company taking into consideration of the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. The Group continue to conduct comprehensive review of the distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Trade Payables

Trade payables decreased from approximately RMB4.2 million as of 31 December 2021 to approximately RMB3.8 million as of 31 December 2022. Trade payables turnover was 13 days for FY2022 (FY2021: 14 days).

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets forth the cash flows for FY2022 and FY2021:

	FY2022 RMB'000	FY2021 RMB'000
Net cash used in operating activities	**(10,961)**	(12,331)
Net cash generated from/(used in) investing activities	**45,477**	(5,974)
Net cash used in financing activities	**(17,692)**	(1,072)
Net increase/(decrease) in cash and cash equivalents	**16,824**	(19,377)
Cash and cash equivalents at 1 January	**19,738**	39,169
Effect of foreign exchange rate changes	**177**	(54)
Cash and cash equivalents at 31 December	**36,739**	19,738

The Group were in net cash position as of 31 December 2022, and the gearing ratio was 12.1% as of 31 December 2022 (31 December 2021: 31.2%).

MANAGEMENT DISCUSSION AND ANALYSIS

Notes to financial ratios

(1) *Inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant year and multiplied by 365 days*

(2) *Trade receivables turnover days equal to the average of the opening and closing balances of trade receivables of the relevant period divided by turnover of the relevant year and multiplied by 365 days*

(3) *Trade payables turnover days equal to the average of the opening and closing balances of trade payables of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days*

(4) *Current ratio equals to current assets divided by current liabilities as of the end of the year*

(5) *Quick ratio equals to current assets less inventories divided by current liabilities as of the end of the year*

(6) *Gearing ratio equals to total of bank and other borrowings divided by total equity as of the end of the year*

FINANCIAL RISK MANAGEMENT

The Group has a treasury policy that aims to better control its treasury operations and lower borrowing cost. The treasury policy requires the Group to maintain an adequate level of cash and cash equivalents, and sufficient available banking facilities to finance its daily operations and to address short-term funding needs. The Group reviews and evaluates the treasury policy from time to time to ensure its adequacy and effectiveness.

Except for operations of the Company and other investment holding companies outside Mainland China, the Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the management considers the Group's exposure to currency risk insignificant.

The interest rate risk of the Group arises primarily from bank borrowings. As the Group's operations are mainly conducted in Mainland China and the majority of the Group's assets and liabilities, and sales and purchases are transacted in RMB, the Directors are of the view that the Group are not subject to significant foreign exchange rate risks.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE AND FUND RAISING ACTIVITIES

Placing of Shares under General Mandate

On 22 April 2022 (after trading hours), the Company entered into the placing agreement with the placing agent pursuant to which the Company has conditionally agreed to place, through the placing agent on a best efforts basis, up to 23,616,000 placing shares at the placing price of HK$0.58 per placing share to not less than six placees who are professional, institutional or other investors that are third parties independent of the Company and its connected persons. The placing shares were allotted and issued pursuant to the general mandate, which had been approved at the annual general meeting of the Company. Details of the placing of new shares were set out in the announcements of the Company dated 22 April 2022 and 12 May 2022.

In May 2022, the Company completed the placement of 23,616,000 Shares and raised net proceeds of approximately HK$13.5 million. As of 31 December 2022, the entire amount of HK$13.5 million has fully utilised as planned.

The table below sets out the planned applications of the net proceeds and actual usage up to 31 December 2022.

Use of proceeds	**Planned applications** HK$ million	**Percentage of total net proceeds**	**Actual usage up to 31 December 2022** HK$ million
Repayment of borrowings	8.0	59.3%	8.0
General operation costs	4.5	33.3%	4.5
Settling professional fees	1.0	7.4%	1.0

Use of Proceeds from Placement of Shares

In April 2021, the Company completed the placement of 19,680,000 Shares and raised net proceeds of approximately HK$9.2 million. As of 31 December 2021, the entire amount of HK$9.2 million has fully been utilised as planned.

The table below sets out the planned applications of the net proceeds and actual usage up to 31 December 2021.

Use of proceeds	**Planned applications** HK$ million	**Percentage of total net proceeds**	**Actual usage up to 31 December 2021** HK$ million
Repayment of borrowings	5.0	54.3%	5.0
General working capital	3.4	37.0%	3.4
Settling professional fees	0.8	8.7%	0.8

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As of 31 December 2022, the Group has no capital commitments (31 December 2021: Nil).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as of 31 December 2022 and 2021.

PLEDGE OF ASSETS

As of 31 December 2022, pledged bank deposits, certain properties and right-of-use assets totalled approximately RMB11.0 million (31 December 2021: approximately RMB28.5 million) were pledged for certain bank loans.

RELATED PARTY TRANSACTION

As of 31 December 2022, a subsidiary of the Group provided a guarantee (the "**Guarantee**") to a related party in an amount of RMB10 million. The provision of Guarantee also constituted a connected transaction for the Company under Chapter 14A of the Listing Rules.

The amount of Guarantee of RMB10 million has been used by such related party during the year ended 31 December 2022 and the Guarantee has been fully discharged on 20 March 2023.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group made no significant investments, material acquisitions or disposal during the year ended 31 December 2022.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For FY2022, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of the Group aims at attracting, retaining and motivating talented individuals. The principle is to have performance-based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. The emolument policy of the Group will be adjusted depending on a number of factors, including changes to the market practice and stages of the business development, so as to achieve the operational targets of the Group. As at 31 December 2022, the Company employed around 290 full-time employees. The total staff costs for FY2022 was approximately RMB26.0 million (FY2021: approximately RMB29.1 million).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW

Reporting Entity

For the purpose of this Environmental, Social and Governance Report ("**ESG Report**"), Miko International Holdings Limited is referred to as the Company (the "**Company**"), and together with its subsidiaries as the Group (the "**Group**").

Reporting Period

1 January 2022 to 31 December 2022 ("**2022 Reporting Period**")

Objective

Pursuant to Appendix 27 of the Environmental, Social and Governance ("**ESG**") Reporting Guide (the "**ESG Reporting Guide**") regarding the Rules Governing the Listing of Equity Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKEx**") and the Global Reporting Initiative Sustainability Reporting Guidelines ("**GRI Reporting Guide**") issued by the Global Reporting Initiative ("**GRI**"), where applicable, the Group is obliged to review, identify and disclose relevant information required in the ESG Reporting Guide in a manner in the opinion of the Board of Directors (the "**Board**") of the Group which is considered to be material to the investors and other stakeholders for 2022 Reporting Period, and in many material areas being compared with the last reporting period from 1 January 2021 to 31 December 2021 ("**2021 Reporting Period**"). The ESG Report will be used for internal assessment and management control, and communicating to the internal and external stakeholders.

In this regard, the Group has introduced measures and established key performance indicators ("**KPIs**") on environmental and social aspects since 2017. The Group has been able to review, assess and monitor the performance of our environmental and social obligations in a continuing and ongoing manner.

The Group is committed to being an excellent corporation in its trade and industry and is well aware that ESG matters are a long term task which warrants the Board's constant attention and supervision. The Board ensures that ESG policies established and measures implemented are in line with corporate vision and principles, business objectives and responsibilities of the Group business operations.

The Group believes that accomplishments and success in ESG matters are beneficial to the overall interest of the Group and other stakeholders including but not limited to investors, employees and business partners together with the environment and the society.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Scope of Report

The Group is engaged in the design, manufacture and sale of infant and children apparel, footwear and accessories. We manufacture our products in both our factory in Quanzhou City of Fujian Province and on Original Equipment Manufacturing ("**OEM**") orders, which mean products that are fully designed by the Group and then licensed out to other manufacturers to produce in People's Republic of China (the "**PRC**" or "**China**"). We sell our products under our "Red Kids" brand through our wholesale networks throughout China.

The ESG matters for the year ended 31 December 2022 reported below, cover our headquarters and the main manufacturing plant in Quanzhou City of Fujian Province.

Basis of Preparation

This report was compiled in accordance with the ESG Reporting Guide. The content of this report includes two main subject areas as outlined and required by the ESG Reporting Guide, being Area A – Environmental and Area B – Social, and includes disclosure of climate change related issues which have or may impact our Group.

This ESG Report, which was reviewed and approved by the Board, both reviews and reports the core business operations and activities of the Group and follows the principles of materiality, quantitative, balance and consistency to disclose relevant statistics and information.

Corporate Mission and Vision

The Group continues to strive to be an environmentally friendly and socially responsible corporation. We operate in strict compliance to the principles of minimising the risks associated with the listed ESG areas and aspects stipulated in the ESG Guide, including but not limited to the compliance with legal and regulatory requirements, adherence to high ethical standards, minimizing negative impacts on the environment, improving the well-being of the employees, enhancing the relationship with the business parties, offering highest possible level of services to our clients, creating value to the stakeholders, and supporting the disadvantaged and growth of the community. It is also our view that environmental and social issues listed in the ESG Reporting Guide are significant considerations for our business planning and operations. As far as possible, we have integrated these environmental and social considerations into our business objectives, strategies and operational practices with the purpose of maximizing the interests of all stakeholders, economy, environment, society and corporate governance on a fine and fair balance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG Objectives

Environmental Aspect Objectives

- Conduct our business operations and services in an environmental friendly manner in conjunction with our business plans and objectives;
- Use energy and resources in a wisely and efficiently manner by all operations of the Group;
- Minimize consumption of non-renewable energy and resources;
- Minimize hazardous, pollutants and gas emissions, whether hazardous or non-hazardous in nature;
- Reduce the water consumption and waste water discharge to as far as attainable; and
- Closely follow relevant laws and regulations as well as guidelines published by authorities.

Social Aspect Objectives

- Provide a safe and pleasant working environment to our employees and maximize their earnings;
- Commit to fair and ethical business practices;
- Support the disadvantaged and the community; and
- Closely follow relevant laws and regulations as well as guidelines published by authorities.

The Board continues to approve the ESG strategies, polices and guidelines while the general manager continues to be responsible for the Board's approved targets and defined strategic directions if they are adequately implemented in the Group's ESG activities. The general manager has appointed an ESG Manager to monitor and review the ESG issues to ensure that recommendations in the ESG Reporting Guide and GRI Reporting Guide are followed and adopted on a regular basis. Where necessary, independent professionals and consultants have also been and will continue to be engaged regularly to conduct analysis and reviews for the purpose of improving or problem solving of ESG matters.

For the purpose of this ESG Report, only activities and operations which are considered material and significant to the environment and our activities are included. Overall, the Group takes on an active role in ensuring sustainable and environmentally friendly operating processes are in place. This is achieved by taking all practicable and possible measures to comply with all the relevant national laws, operating practices and standards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders Communication

The Group always values input and feedback of its stakeholders which are considered influential and weight bearing to the overall interest and business of the Group. In this regard, the Group continues to constantly communicate with its internal and external stakeholders to canvas their views and opinions regarding not only ESG matters but also the Group's operations and performance to address their concerns. The stakeholders include shareholders, investors, employees, customers, suppliers/service providers and regulatory authorities.

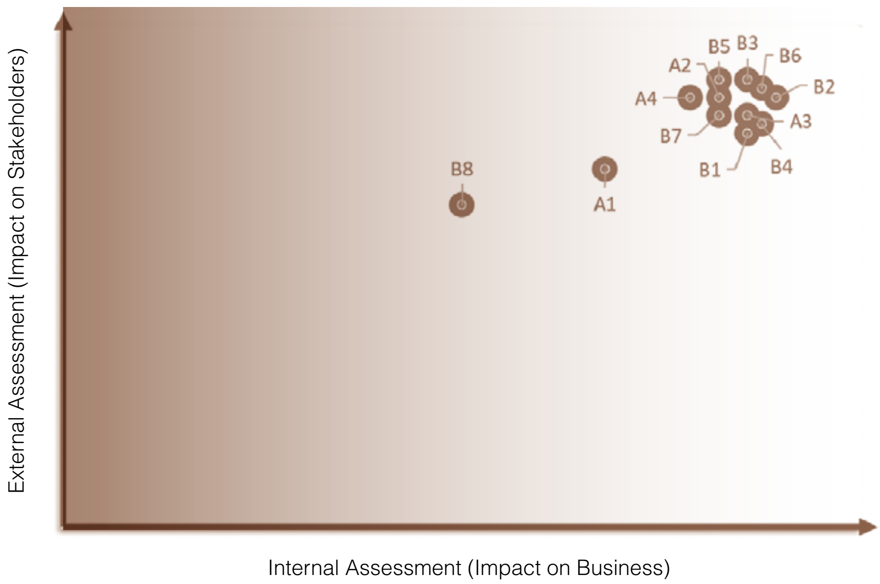
Regarding issues that are of concerns to the stakeholders, the Group seeks stakeholders' opinions and suggestions through scheduled and ad hoc conversations through various communication channels. Internal meetings of the Group are conducted to report and discuss the feedback from the stakeholders, which will then be used as important reference for the Group's sustainable development strategy. The Group continues to assign a board member and duty managers to constantly communicate with its stakeholders under the following established channels in order to gain insights on ESG material aspects in 2022 Reporting Period.

Stakeholders	**Communication Channels**
Shareholders/Investors	• General meetings • Information published on websites of the Company and The Stock Exchange of Hong Kong Limited • Direct emails or phone enquiries • Dispatched documents
Employees	• Direct meetings with the management executives • Emails • Annual and regular appraisal • Organized functions and activities for the employees
Customers	• Ad hoc communication meetings • Email and phone contact • Official websites
Suppliers/service providers	• Day-to-day communication through front line staff • Regular review of the signed arrangements by the management
Regulatory authorities	• Cooperate on compliance inspections • Regular submission of statements/documents required (monthly/quarterly)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality

For 2022 Reporting Period, the Group and the stakeholders have identified the following material areas and aspects:



Subject Areas		Subject Aspects
Environmental		A1. Emissions, Polluted Water and Waste Discharge A2. Use of Resources A3. Environment and Natural Resources A4. Climate Change
Social	Employment and Labour Practices	B1. Employment B2. Health and Safety B3. Development and Training B4. Labour Standards
	Operating Practices	B5. Supply Chain Management B6. Product Responsibility B7. Anti-corruption
	Community	B8. Community Investment

The subject ESG material areas and aspects have and will continue to be strictly managed and monitored through the Group's established management structure, process, policies and guidelines as described in the aforementioned sections.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AREAS AND ASPECTS AND THE GROUP'S ENVIRONMENTAL AND SOCIAL OBLIGATIONS PERFORMANCE

(A) ENVIRONMENTAL AREAS AND ASPECTS

Policy

The Group continues to act as a responsible corporation and has abided by all the national and local environmental laws and regulations. This is the bottom line and guiding principle of business operation of the Group. Through the implementation of our "Green Environmental Policy and Measures", the Group aims at integrating our operations and activities with the environment in a harmonious interaction by preventing pollution, achieving resource conservation and energy saving, striving for waste reduction and keeping all negative impacts towards the environment to a minimum.

Compliance of the relevant laws and regulation that have a significant impact

To establish and maintain policies and procedures to identify, evaluate and determine the significance of environmental aspects and impacts by and on the Group and ensuring compliance with all relevant national and local environmental laws and regulations of the PRC including but not limited to:

- Environmental Protection Law of the PRC (中華人民共和國環境保護法);
- Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法);
- Water Pollution and Control Law of the PRC (中華人民共和國水污染防治法); and
- Atmospheric Pollution and Control Law of the PRC (中華人民共和國大氣污染防治法).

The Group is principally engaged in the design, manufacture and sale of infant and children apparel, footwear and other accessories. Products are designed and manufactured either in our factory in Quanzhou City, Fujian Province or are subcontracted to other factories in China. Our products are sold in our wholesales channels throughout China.

The Group does not own or operate our own transport fleet. All logistic and transport operations are outsourced. In our manufacturing operations, raw materials include substantial quantities of ready-made clothing fabrics and other accessories which are supplied by others. Normal amounts of packaging materials commensurate with product and production requirements are involved. These mainly include paper, carton boxes and wooden pallets.

Our production conceivably necessitates the normal use of electricity and an incidental amount of water. The amount and rate of consumption of our resources are typical of other operators of a similar scale in the garment manufacturing industry. Fresh water is used in the factory by the workers for daily household consumption in their accommodations.

Being principally engaged in the garment production business, the Group does not produce, emit or discharge any serious hazardous gas emissions, pollutants, polluted water or wastes. Typical and consistent with other operators in the same industry, the manufacturing operation of the Group generates only non-hazardous greenhouse gas emissions indirectly through the use of electricity, and other general wastes including packaging materials, paper, and clothing fabrics.

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In this regard, there are no laws and regulations which, in our view, are of significant impact to our production operations. We have reiterated herein that we have complied with the national and local environmental laws, and in the last 3 years, we did not receive any complaints, warning and/or fines from any environmental authorities.

Environmental Aspects

A1. Air Emissions, Polluted Water and Waste Discharge Aspect

(i) Hazardous and Non-Hazardous Air Emissions

The Group's apparel, footwear and accessories manufacturing business does not involve major environmental contamination risk. The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Group relating to environmental protection (including air and greenhouse gas emissions, water and land discharges, and generation of hazardous and non-hazardous waste).

The only non-hazardous air emission is greenhouse gas emission, namely carbon dioxide ("**CO_2**") emissions, generated indirectly through the use of electricity in the production processes and in our offices and retail outlets for ordinary heating and lighting. However, electricity consumption in the retail outlets is normally not under the sole control of the Group. Building Management Offices of the retail outlets are having the overall control on the supply of both lighting and air conditioning of our rented premises, which are normally included in the management fees. As a result, for the ESG reporting, the Group only disclosed the consumption of electricity in the factory and headquarters office in Quanzhou City, Fujian Province.

Hazardous air emissions such as sulphur oxides ("**SOx**"), nitrogen oxides ("**NOx**") and particulate matter ("**PM**") are normally be discharged from direct use of diesel, petrol and other fossil fuels. Same as the last 3 years, as the Group does not own a large fleet of vehicles and has outsourced all its transport operations to third-party transport operators, our petrol and other fossil fuel consumptions are insignificant.

During the 2022 Reporting Period, the Group's operations and activities generated a total of approximately 1,150.75 tonnes of indirect CO_2 emissions from the use of electricity by our factory and offices, which was approximately 169.51 tonnes or about 12.84% less than 2021 Reporting Period. The decrease in CO_2 emission was owing to the decrease in electricity consumption. For 2022 Reporting Period, non-hazardous waste intensity was approximately 4.04 tonnes per employee.

For 2022 Reporting Period, same as the last 3 years, the Group did not receive any emission complaints or warning notices from the local communities and relevant environmental agencies. With continuation of our CO_2 emission control measures, the Group targets to have 2% drop for the coming year.

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(ii) Water Pollution and Discharge

Our operations and activities do not require much use of fresh water in our manufacturing process, other than that of the daily living uses of our staff and employees in our factory, dormitories and offices. Therefore, our operations and activities do not generate much polluted water. The fresh water used in our factory, dormitories and offices are provided and discharged without any problems through the respective centralized water supply and discharge network. Despite the insignificant amount of fresh water consumption, the Group continues to be alert and to educate the staff and workers to save and not to waste fresh water, one of the most valuable natural scarce resources in the world nowadays. We have regularly sent supervisors to inspect all the water taps to make sure that they have always been turned off whenever not in use.

Same as the last 3 years, the Group did not receive any complaints or warnings from the local community or related government agencies on our fresh water consumption and polluted water discharge in the 2022 Reporting Period. We are confident that we will achieve the same result in the coming year.

(iii) Hazardous and Non-hazardous Wastes Discharge and Disposal

As reported in our ESG report for 2021 Reporting Period, the Group's manufacturing process only produces solid wastes in the form of residuals from the clothing fabrics used, and packing materials of raw materials supplied, such as boxes, wood cartons and plastic wrapping, and living wastes produced by workers living in the factory dormitories. All these wastes are non-hazardous and are typical for garment manufacturing operation. The former has been sold to small operators and recyclable materials collectors on a regular basis, and the latter has been stored in central rubbish depots and removed by the city urban cleaning services on a daily basis at a fee.

During the 2022 Reporting Period, same as the last 3 years, the Group did not receive any complaints or warnings on our wastes disposal. We are again confident that we will continue with this clean and good record in the coming year.

(iv) Noise Pollution Emission

As reported in our ESG report for 2021 Reporting Period, the operation of the factory does generate and emit noises from sewing machines and the central cooling system, which is not too loud and disturbing and is all within national and local environmental acceptable limits. Moreover, our factory site is located in an industrial zone, and no residents are staying nearby. As such, the emitted noises do not cause significant noise pollution to the surrounding environment and to local residents. Regarding our retail outlets, we do not generate any noise pollution as all the air-conditioning systems are centralized, and we, as well as most of the shopping malls and arcades, do not allow the use of amplifier to create noise for the promotion of our products. The Group has complied with all the national and local laws, rules and regulations to ensure noise emission is under strict control.

Same as the last 3 years, we did not receive any complaints related to noise emission in this 2022 Reporting Period. We are confident that we will continue to have zero complaints in this noise pollution aspect in the coming year.

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(v) Light Emission

As reported in our ESG report for 2021 Reporting Period, since all our manufacturing activities and operations are conducted inside the factory and offices, no significant light pollution is created. Regarding our wholesale channels, the standards of light installation and emissions which in any circumstances must comply with the local light emission standards. We have complied with all the requirements of light installation and emission, and no light pollution is caused.

In the 2022 Reporting Period, same as the last 3 years, there were no complaints or warning notices related to light emission. We are again confident that we will continue to have a clean and good record in the coming year.

(vi) Mitigation Measures and Reduction Initiatives

The Group's manufacturing and sale operations and activities do not generate any significant hazardous and non-hazardous emissions and discharges. As a responsible corporation, we are conscious of the effects of our operations and activities may have on the environment and constantly work on maximizing energy efficiency and minimizing emissions, wastes generation, disposal and discharges. We fully comply with all applicable environmental laws, rules and regulations and industrial standards in the markets we operate in.

Emissions

The Group continued to actively promote energy saving and carbon reduction projects. Given the straight-forward and simple manufacturing and office operations of the Group, controlling and limiting the consumption of electricity is in our view the biggest achievable target in this area. Electricity consumption is more or less directly proportionated to our production scale in the main and there is not much room for large scale improvements. The Group, however, is committed to making savings. The Group is contemplating to record and compare the electricity consumption of the production factory and main office on a monthly basis as a monitor. All employees were constantly reminded to use electricity wisely. In addition, other up-to-date energy saving measures and devices will be looked into by the ESG Manager in all areas of the Group's operation. They include use of energy saving devices, minimizing use of electricity by administrative measures in conjunction with education and promotional programmes. With a reduction in electricity consumption, the indirect CO_2 emissions will automatically be reduced.

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Water consumption and discharge

On conserving fresh water and other natural resources especially on paper and packaging materials consumptions, we have encouraged economical and recycling use of resources to reduce wastes generation and to prevent resource wastage. In response to the stakeholders' concerns for the safety and sanitation management of drinking water for the employees and the concerns of the international sustainable trend about water resources, the Group's water resource management policy aims at gradually increasing the reuse rate of water resources in the factories and avoiding excessive consumption of natural water resources in the medium and long term, in addition to ensuring that water provided meets the specified water quality standards, and that processing of discharged water is in compliance with the local discharge regulations.

Use of natural resources and waste disposal

In response to the stakeholders' concerns for the use or activities of natural resources and waste disposal, the Group has conducted the procurement management of raw materials, the Group not only requires material suppliers to provide relevant material inspection and commitment for zero use of prohibited and restricted substances, but also conducted sample tests for specific materials to ensure that the quality meets the requirement. In addition, waste management strategy of the Group's factory and office focus on the legal clearance, removal and disposal, and reduction and reuse of wastes. The clearance, removal and disposal of all the wastes must be carried out by government-certified service providers according to local laws and regulations.

To effectively control electricity, water and natural resources consumption, the Group has implemented the most basic measures and policies, apart from alerting and educating the staff and workers on water, energy and natural resources consumption, appointed officers to regularly inspect our factory, dormitories and offices to ensure that (i) fresh water is not wasted and used reasonably and (ii) power is turned off when work is not being carried out, use of natural ventilation to replace air-conditioning in allowable conditions. We fully comply with all applicable environmental laws, rules and regulations and industrial standards in the markets.

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A2. *Use of Resources Aspect*

The production and business operations of the Group do not entail a large variety of raw materials and resources. Ready to use fabric is our main production material and electricity is the principal resource required. A relatively small amount of water is used incident to our apparel production. The major water consumption lies in the dormitories of the employees for their general household uses like bathing and toilet flushing. While recognizing the need for resource conservation, the Group is also mindful of the needs of the employees for their health and hygiene purposes. We have a good balance to strike and therefore, the policy of the Group is pretty simple and straight forward in this regard.

There are a few small scale standby power generators in the factory which are meant to be put into use when a sudden power failure of the city supply occurs. Given the improving city supply reliability in recent years, the need for the standby generators declines and becomes insignificant. There is therefore a small amount of diesel fuel consumption in this regard, but the amount is insignificant and immaterial in comparison to electricity. Moreover, this energy resource is for standby use and there is little that the Group can determine to increase or decrease its consumption.

Although our operations and activities do not create significant impacts to the environment, the Group is committed to acting responsibly and aiming at minimizing such impacts to the environment and at the same time with cost saving as a bonus. The Group attaches great importance to promoting resource conservation in electricity, fresh water, papers and packaging materials. There are supervisory programmes on resource conservation instigated. Responsible officers are appointed to inspect factories, dormitories and offices to ensure that water, electricity and paper and other raw materials are efficiently used.

Same as the last 3 years, the Group did not find any abnormal or excessive uses of resources including electricity and diesel, fresh water, paper and packaging materials which were all within our internal control targets. Given our patience of education, promotion and management, the Group is confident that we continue to have no abnormal uses or wastage of electricity, water, paper and packaging materials in the coming year.

(i) Direct and Indirect Electricity and Fuel Consumption

Electricity is the only energy resource consumed for its manufacturing, offices and dormitories. Other energy resources like gas for heating are only very small in amount in comparison and immaterial in our view. The Group only sources electricity from the city grid. To save operational costs and to improve our environmentally friendly footprint, the Group has implemented measures as mentioned before to reduce energy consumption.

During the 2022 Reporting Period, the electricity consumption of our offices and production factory were 208,370 kWh and 1,563,112 kWh respectively as compared with 234,228 kWh and 1,642,482 kWh in the 2021 Reporting Period. The figures generally reflected a normal rate of consumption same as with previous years and do not have a cause for alarm. The figures recorded an decrease of 105,228 kWh or 5.6% over 2021 on the electricity consumption in 2022.

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(ii) Fresh Water Consumption

Same as before, there are 2 main sources in which water is used in the Group. Water is only incidental in the production process as there is no bleaching or dyeing carried out. The main consumption is for employee quarters household use. All the fresh water supply is from the central water supply network which is reliable and without any problem.

To save cost and conserve fresh water, the Group has encouraged our staff and workers to efficiently use fresh water as it is one of the most important scarce resources of today's world. We have appointed supervising staff to regularly inspect the kitchens, bathrooms and toilets, to ensure all facilities are in good condition and that all the water taps have been turned off when they are not in use, and to check and to immediately remediate any water leakage.

During the 2022 Reporting Period, same as the last 3 years, we did not find any abnormal or wastage uses of fresh water.

(iii) Paper and Packaging Materials and other Raw Materials Consumption

To save operational costs and improve our environmentally friendly footprint, the Group continues to implement the following measures to reduce paper and packaging materials consumption reduction:

- Applying computer technology such as storage of documents in electronic version, online signature system for document, review and signing, communications via emails and messages to replace paper consumption;
- Encouraging staff to use both sides and recycled paper, reuse stationery such as envelopes, document folders etc., and reduce the frequency of printing and/or copying; and
- Recycled paper has been sourced and directly used for our garments and apparels packaging.

During the 2022 Reporting Period, we used a total of 210 boxes of paper during our operations, an increase of 2 boxes or 0.96% compared to 208 boxes used in 2021 Reporting Period.

As a garment manufacturer, we use a substantial quantities of natural and synthetic fibers, such as cotton, jute and nylon, etc. The Group is conscious of the environmental effects of the raw materials chosen and, as a guiding principle, we have always encouraged our designers to choose and design with environmentally friendly garments which use natural fibers.

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A3. Environment and Natural Resources

As reviewed above, we have not polluted the air, water and land in the areas that we are operating. As a dedicated operator who has keen interest in the environment and natural resources, the Group ensures that such a belief is well implemented in our business operation and in particular the production processes and products. We have complied with all the national and local environmental laws, rules and regulations, and industry standards, and at the same time have implemented measures to reduce energy, fresh water, paper and packaging materials consumptions.

In our manufacturing process, we used to use plastic and paper to pack our garments and apparels. The management has already instructed the design team to source and use recycled paper and to reduce plastic materials for packaging and shopping bags for our retail outlets.

Given the nature of our clothing products, a substantial quantity of natural and synthetic fibers, such as cotton, jute and nylon, etc. are used. The Group is conscious of the environmental impacts of the raw materials chosen for our final products. Designers and production personnel have been instructed to design with environmentally friendly garments and apparels by using natural fibers as far as the products allow.

We have also promoted environmental education and advocacy amongst our employees with a purpose to motivating environmental friendly behavior across our organization. The management is aware that conservation and monitoring of its resources as a continuing practice will show benefits over time.

A4. Climate Change

The Group understands that stakeholders expect us to be managing and mitigating climate change risks in line with local and global commitments and recommendations. After communication with the stakeholders and reviewing of the Group's operations and activities in light with the current global environmental conditions, the Board identifies that global warming and reduction on the use paper and paper related packaging materials will be the most significant climatic issues that may impact the Group. These two climatic issues not only affect the operation costs of the Group, they will also affect the global environmental conditions.

It also is generally agreed that global warming is mainly caused by the excessive release of CO_2 into the atmosphere, which is directly and indirectly the result of uses of fossil fuels for transportation and electricity generation.

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For 2022 Reporting Period, although the Group's operations and activities did not directly generate any CO_2 emission, we did generate CO_2 indirectly through the use of electricity. Faced with the global climate change risks and the international trend and challenge of reducing greenhouse gas emissions, as well as the possible hike of energy consumption caused by the introduction of manufacturing processes such as automation and technology garment making, the Group deeply understands the needs to cooperate with the overall industry and its upstream and downstream supply chain, to align with the national policies of each region, and to discuss with brand customers and supply chain manufacturers about the new manufacturing process technology for sustainable production, as well as new opportunities for energy conservation and carbon reduction. We have implemented policies and measures to use electricity efficiently to reduce indirect CO_2 emission, which is a main contributor of global warming. Through reduction on usage of paper or paper-related packaging materials, we wish to indirectly reduce the cutting of trees, which will directly assist on curbing global warming as well.

For the 2022 Reporting Period, the Group's business operations and activities did not lead to any events or issues that might impact the climate or result in the change of the climate significantly. The Group has already taken measures to lower indirect CO_2 emission and to reduce paper and paper-related packaging materials usage with a wish to curb global warming. The Group will continue with such measures for the coming year.

(B) SOCIAL AREAS AND ASPECTS

It is the belief and recognition of the Group that a harmonious relationship with our other stakeholders like employees, business partners, government officials, customers and suppliers will bring about more overall mutual benefits to every party including the society as a whole. This rationale and idea together with transparency, mutual respect and honesty are the corner stone of our business philosophy and have been an integral part of our business operation.

Pursuant to ESG Reporting Guide, social aspects include "Employment and Labor Practices" and "Operation Practices", which are reported below:

(i) Employment and Labour Practices Areas

The Group continues to hold the belief that employees are important assets and our success depends on the commitment, passion, productivity and quality of our employees. The Group has planned a holistic approach of recruitment, employment, training and retention of employees. Team events are organized to build the employees' sense of belonging, as well as to increase the employees' understanding of the Group. In addition, the Group has ensured that all the human resource policies and measures made are in accordance with the national labour laws. Abiding by the law is the bottom line of our operating guiding principle which is to be observed and followed by all levels. Our human resources policies and measures are also clear, equitable and humanistic, and have committed to create a safe and pleasant working environment for all of the employees. The Employees' Handbook and employment contract contain clear provisions that no discrimination on gender, religion, race and marital status in our operation activities including but not limited to employment terms, promotion and welfare benefits.

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The performance management system has been introduced to effectively motivate the employees to engage in continuous development, to help the employees in career planning, and to achieve succession of talents and the Group's objective of sustainable operation. The Group is also committed to providing the employees with an equal, safe and healthy work environment, complying with the local laws and regulations, as well as fostering labor harmony and building a high quality enterprise.

Same as before, the Human Resources Department is charged with the duty and responsibility of all employment and employee welfare matters. Recruitment and appointment are based on objective merits. Qualified employees are offered the appointment with competitive wages and benefits commensurate with the market rate. Where necessary and required, training and promotion are provided. Position openings stipulating with jobs requirements are offered in the open market or through employment agencies. The selection process has been standardized and positions will be offered after background checks, tests and interviews as necessary by our human resources department. Recruitment of all employees is carried out by the Human Resources Department except that senior managers are decided by the Chief Executive Officer ("**CEO**") of the Group. It should be noted that, many of our positions are offered to low-skilled or semi-skilled female rural workers who need extensive in-house training on their work. Our policy is to try to provide a career path to enhance their sense of belonging.

For 2022 Reporting Period, the Group honored all of our employment and labour welfare obligations. All benefits, salaries and wages, employees' social insurance and other contractual benefits accrued or due are timely settled and paid out. Same as in previous years, no labor disputes were recorded in court.

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B1. Employment Aspect

(i) Employment Mix

As at 31 December 2022, the Group employed a total of 290 full-time employees, and same as last year, no part-time employees were hired. Further analysis of the Group's employment situations for 2022 Reporting Period and comparison with 2021 Reporting Period are summarised below:

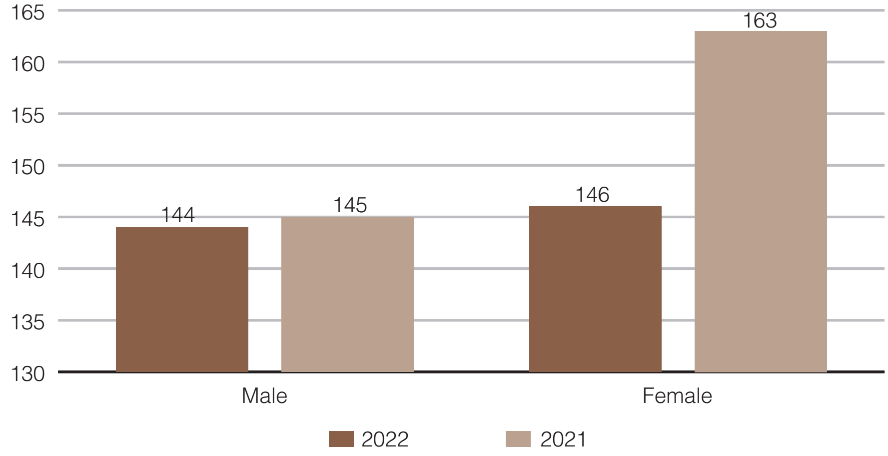

Figure 1: Employee mix by Gender

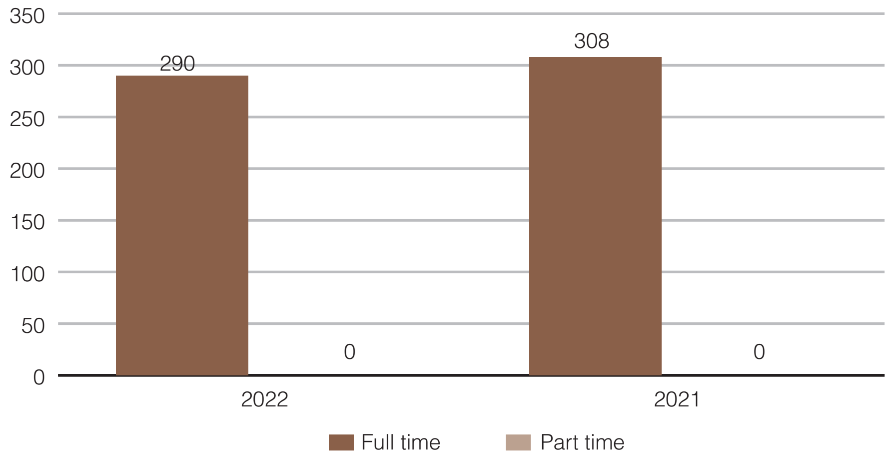

Figure 2: Number of Employees by Employment Type

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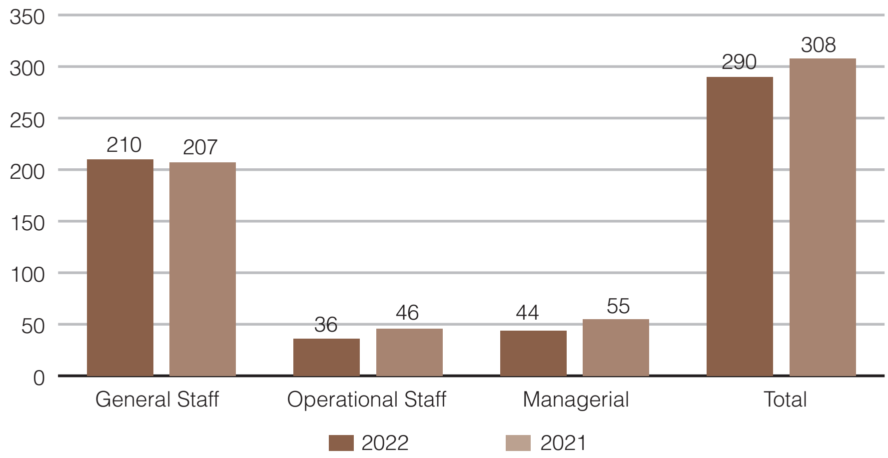

Figure 3: Number of Employees by Role

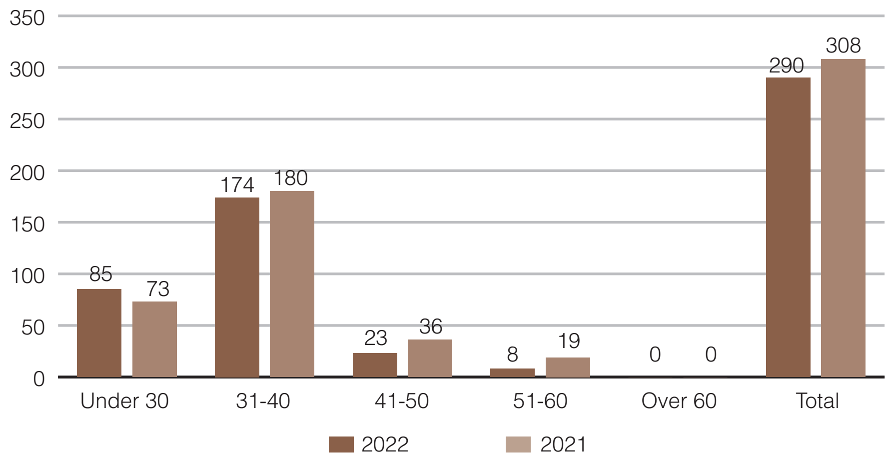

Figure 4: Number of Employees by Age

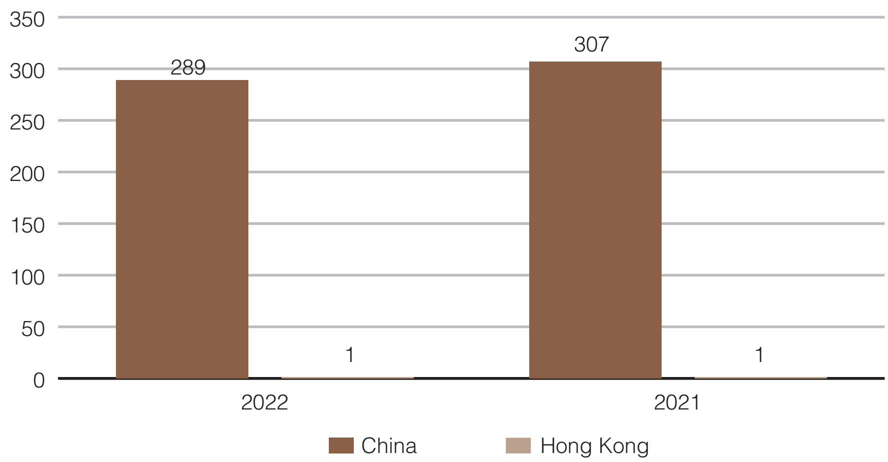

Figure 5: Number of Employees by Geographical Region

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(ii) Employment Turnover Rates

For the 2022 Reporting Period, 22 of the Group's employees left voluntarily for career development. A breakdown of the turnover rates by gender and age is stipulated below:

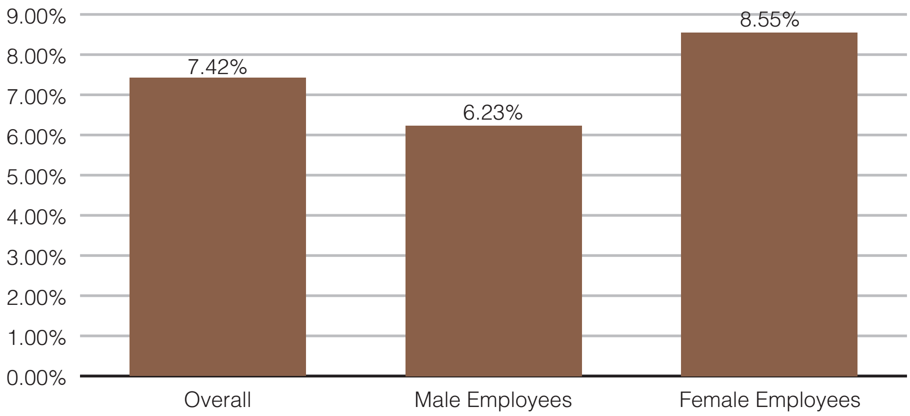

Figure 6: Employment Turnover Rate by Gender

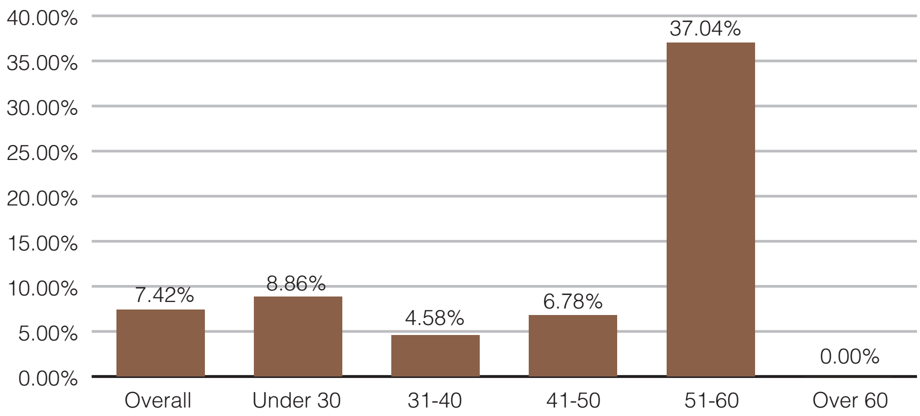

Figure 7: Employment Turnover Rate by Age

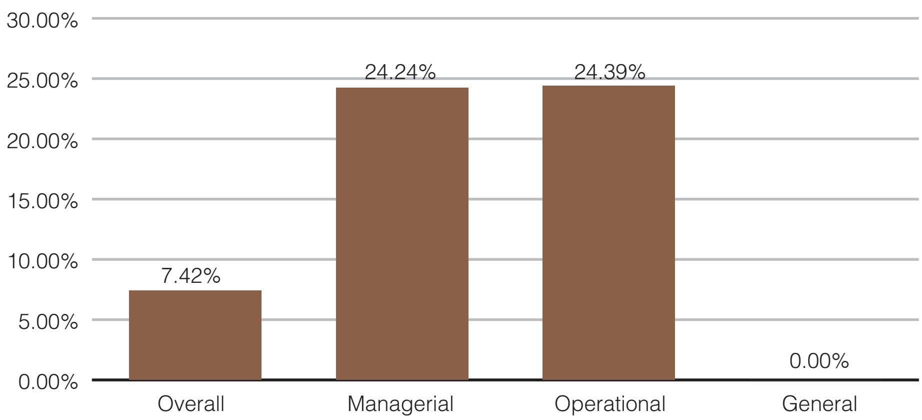

Figure 8: Employment Turnover Rate by Role

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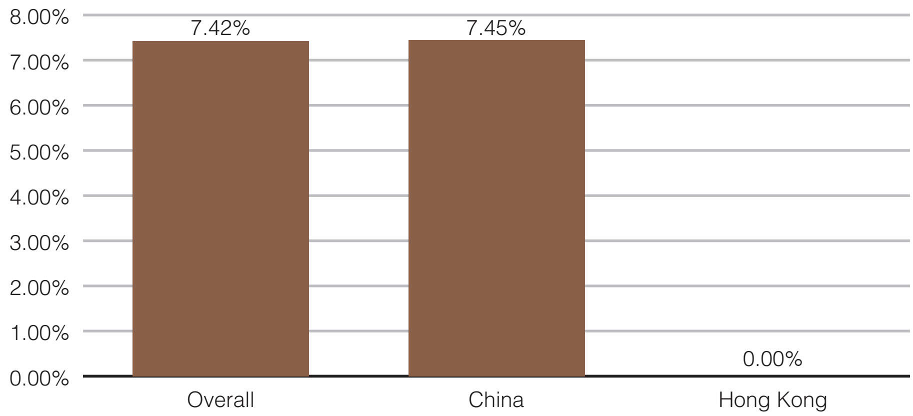

Figure 9: Employment Turnover Rate by Geographical Region

(iii) *Employee Compensation and Package*

The Group continues to strictly comply with the relevant laws and regulations of the "Labor Law of the PRC" and "Employment Ordinances of the HKSAR", and has totally forbidden the recruitment of child labor and forced labor. All employees are required to sign contracts containing detailed terms and conditions including but not limited to the amount of salaries and wages, benefits, medical and accidental insurances, unemployment funds, working hours, employee rights to join trade unions and have holidays and such contracts are filed with the local Human Resource Bureau.

We paid competitive market salaries and wages to our employees, and for special talented, skilled and qualified employees, we remunerated them either by offering higher than market salaries and wages or additional benefits.

In accordance with the requirements of the laws of the PRC and the HKSAR, where appropriate, the Group provided and maintained statutory benefits to all qualified employees, including but not limited to mandatory provident fund, social security insurance, medical insurance, work injury insurance and compensation and statutory holidays.

For the 2022 Reporting Period, same as 2021 Reporting Period, the Group did not have any employment related legal disputes on record.

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B2. Health and Safety Aspect

Though the nature of business and production operation of the Group is not considered to be high risk in nature, the Group however attaches no less concern and importance to the health and safety of the workplace and living quarters.

Caring of and concern for our employees are the primary objective in our employer responsibilities. The Group reckons that employees are a valuable asset and are instrumental to our sustainable development and success.

The Group has committed to providing a healthy and safe working and living environment in the workplace and employee quarters. For the purpose of preventing accidents and injuries to the employees, the Group has taken steps to ensure that all the plants and equipment in the factory are safe for its intended use with proper repair and maintenance. In addition, safety training and supervision are provided to ensure that work can be carried out without risk and injuries. Emergency plans have been in place to respond to general emergencies of various nature and scale.

Work safety instructions and guidelines are provided in the Employee Handbook to accomplish safe operation and all employees are required to observe the safety rules of the workplace. Supervisors at different levels have a responsibility to ensure that safety rules and regulations are adhered to and complied with. Safety information and instructions are integrated with day-to-day instructions, trainings and guidance. All employees are required to report any risk spotted to their superiors immediately, who will then take appropriate measures to ensure that safety is not being compromised. All work-related accidents are required to be reported to the immediate supervisor for investigation or appropriate remedial actions to be taken or to remove the risk.

As a rule of thumb and guiding principle, the applicable standards in the relevant National Safety Laws and Codes of Safety in PRC are the ones that the Group must adopt and adhere to in our business operations. Strict compliance of such standards and guidelines is a must and is our safety bottom line.

During the 2022 Reporting Period, with no complacency, the Group is proud to confirm that there had no work-related fatality, same as the past 3 reporting years. It should be noted that this is due, in our view, mainly to the relatively low risk of our business operation and the safety consciousness of the Group at all levels. For the coming year, the Group will work hard to maintain zero fatality and injury record.

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B3. Development and Training Aspect

The Group recognizes the value and contribution of our employees and is committed to investing in staff training and development.

The Group achieves its goals of training and development through systematic frameworks and methods, constantly upgrades the quality of manpower and expertise, motivates employees' job enthusiasm and encourages them to welcome challenges, thereby creating greater corporate value, achieving operational goals and planning for future development. To achieve the policies and goals of the Group's training and development, it is necessary to consider not only the Group's business vision and objectives but also the assessment of employees' performance and achievements, capability deficiencies, as well as personal development plans.

Given the fact that most of our factory employees come from rural areas with little or no prior production skills, the Group instigates a vocational training policy for new production employees. They will receive 1 to 3 months on-the-job training under the guidance and supervision of their supervisors.

Likewise, for retail outlet employees, in-house on-the-job sales training is also provided to inexperience newcomers. Sales skills and emotion handling are some of the topics in the training. All training course expenses are fully covered by the Group.

As a career progression path, the Group encourages factory employees to move across to the retail outlets. This enables staff motivation and enhances cultivating some sense of belonging with promotion incentive backing. There is also the added benefit of providing ready-made manpower resource from within. In fact, most of our sales outlet managers have been trained and promoted from within our lower rank employees. The Group has and will continue with this policy of providing employment opportunities to unskilled rural labourers and assisting them with a career path.

The Group also continues to arrange senior managers or professionals to provide technical and occupational advice and guidance and short-term training to junior staff. Staff members are also sponsored to attend external training programs relevant to their work to improve their skills and knowledge. This is a way to broaden their career development.

These training programs include production safety, fire-prevention, sales and marketing, sales outlets and division management. The level and content of training are considered suitable and adequate for operational needs and comparable to previous years. New topics will be introduced where considered necessary by the operations departments.

For 2022 Reporting Period, the Group has not initiated any training course or event due to the outbreak of COVID-19 pandemic. However, the Group aims to provide training for its employees as to retain talent and provide an opportunity of growth.

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B4. Labour Standards Aspect

The national labour protection laws and standards are the minimum safety standard of the Group. The "Labor Law of the PRC" and "Employment Ordinances of the HKSAR" are the two major labor safety protection laws applicable to the business operations of the Group. Though the Group does not see any major impact to our business operation, we however attach great importance and attention to ensure that our obligations are fully and timely carried out. Strict compliance of the legislative requirements is our bottom line and guiding principle of our business operations. Any breach of such national laws will be brought to the attention of the senior management and attended to without delay.

We uphold the principle of equal pay for the same position regardless of gender, race, religion, political affiliation, sexual orientation or marital status of the employees. The remuneration of an employee will be determined with reference to his/her educational background, experience, job duties, professional skills and technical capacities, the salary levels in the industry as well as market conditions. The basis of reward and promotion depends on an employee's work attitude, demonstration of professional ability and overall performance. The Group also reviews the remuneration policies regularly to make sure our salary standards are competitive.

The performance management system is introduced to assess an individual employee's performance, the results of which will be used as the basis for salary adjustment and job promotion, thus helping the recruitment and retention of well-performed employees.

Furthermore, the Group believes that honest and sincere mutual communication between staff and management are constructive and effective in enhancing and improving work safety. Measures and policies have already been in place to encourage open dialogue on work safety in a regular and ongoing manner. Employee representatives have been invited to take part in regular work safety meetings to contribute ideas and suggestions in areas like working conditions, health and safety and employment terms and conditions.

All recruitments are done after the proper certificates and documents are provided and documented in the Human Resources Department. Private files of employees are kept on confidential basis and only available for inspection with the approval of the authorized officer.

The Group has also committed to a no child labour and forced labour employment policy. The role and responsibilities of the Human Resources Department are to ensure that such infringements are not and should not be committed as a first line of upholding this policy. The department will be held responsible for any breaches found and the relevant officer will be subject to severe action taken against him or her. All enquiries, concerns, complaints in this regard will be referred to and investigated by the senior management.

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For the 2022 Reporting Period, same as 2021 Reporting Period, the Group honored all its obligations towards the employees and has built a safe, healthy, harmonious and pleasant working environment in all our offices, and no labor disputes or litigations was reported.

(ii) Operation Practices Areas

B5. Supply Chain Management Aspect

Supply chain management in the ESG Reporting Guide mainly refers to the management of sourcing and procurement. The Group mainly procures raw and packaging materials including clothing fabrics and accessories to produce children and infant apparel, footwear and accessories for factory production and printing papers and office utensils for offices uses. The Group has connected the upstream and downstream of the children apparel manufacturing industry, covering relevant areas in machineries, chemical engineering and materials to form a complete supply chain system of the Group. By focusing on local and flexible supply, we expect to shorten our delivery time and respond quickly to the market demand, thereby enhancing brand reputation and customer satisfaction

Over the years, the Group has already developed a matured set of procurement policy and a standardized procurement process. Given a relatively simple business operation nature of the Group, the Group maintains a list of suppliers. For any purchases, 2 to 3 suppliers are invited to provide quotations for our selection and decision. Suppliers are selected on a set of criteria, which includes (i) ability to meet specification and standards; (ii) products and services quality; (iii) pricing; (iv) delivery reliability; (v) track records of the suppliers' business relationships with us and others in the industry; and (vi) their law compliance record.

One unique feature in our purchase policy is that we have tried to integrate social responsibility into our purchase process. We provide preferential status to local suppliers who show support and involvement in environmentally friendly and socially responsible practices and programmes. The Group prefers suppliers who use recyclable and natural materials and employ handicapped workers.

Same as last year, we source our raw materials and accessories from local supplies. This directly reduces the carbon footprint involved and carbon dioxide emission. During the 2022 Reporting Period, all purchases were made with 15 (2021: 15) local suppliers which are the suppliers based in the same geographical market (the PRC) as the Group. The number of suppliers remained unchanged in 2022.

The choice and selection of a supplier for a certain purchase order will follow the purchase criteria aforementioned. Normally, a decision is arrived at after examining and weighing the various selection criteria. In general, no single value or criterion will be overriding. In some rare cases, however, some criteria, for example the availability at short notice, may become overriding and is judged and handled on a case by case basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As can be seen, social risks of a supplier are also part of our selection criteria and consideration. When a supplier is found seriously violent of the law, it will be removed from the supply chain and new one will be sourced and established. Admittedly, the Group will have to rely on public information in the main or other trade sources. We rely on the quality of our end products to ensure that raw materials or accessories measure up to our specification and standard.

The product policy of the Group is to promote and manufacture children and infant apparels using natural and safe materials which are environmentally friendly and without risk to the end users. Obviously and naturally, this becomes an overriding and guiding principle in selecting preferable products and services. Materials and accessories failing to safety to our specification and requirements are rejected and declined automatically in the selection process.

B6. Product Responsibility Aspect

There are five major aspects to our Group's product responsibility policies and practices: product quality and safety, quality assurance, customer services and complaints handling, intellectual property rights, and customer data and privacy.

The Group continues to design, manufacture and sell middle to higher end children and infant apparel, footwear and accessories under our own registered trademark "Red Kids" brand via a network of retail outlets and wholesale agents across China. Together with our investment in modern production facilities, our professional design and management team, and the business and operation philosophies of "original, modern and fashionable on design", "quality of production" and "fairness and honesty on sales", it is our cornerstone sale policy that we assure the buyers to pay for guaranteed quality products.

Product Quality and Safety

The Group continues with its "quality guarantee policy" and takes all reasonable steps to ensure that the goods we produced are safe and harmless to consumers, meet all agreed or legally required standards for consumer health and safety, including health warnings, product safety and information labels. We have employed controllers to examine the quality and safety of our products from the first stage of raw materials purchases to the final stage of sales and to regularly inspect goods at our production lines and sales outlets to ensure that they are compliant with both internal and external quality assurance codes.

For the 2022 Reporting Period, same as the last 3 years, there were no record of major sales returns from buyers or complaints or warnings from the Consumer Councils or relevant government authorities on the quality and safety issues of our products.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Quality Assurance Process

As disclosed before, the Group attaches significant importance to the quality assurance aspect of our products as we firmly believe that this is the most important factor for the success of our brand name, the Group reputation and customer loyalty. The Group has invested substantially on modern production facilities, and our professional design and management team. The Group has obtained ISO9001 on Quality Management System and ISO14001 on Environmental Management System certifications, and won the following awards since our official establishment in 1995:

1995	Golden Bridge Award from China Textile Association
2000, 2006, 2009 & 2010	Fujian Famous Brand Award
2001, 2002 & 2005	Government Supported and Developed Famous Export Brand Award
2013	National Top-Quality Enterprise Award
2011, 2013 & 2016	Most Famous Kids Fashion Brands Award

We provide industry standard guarantee and instigate a policy for return and refund for product quality reasons. The customer service unit is charged to collect and analyze return and reject cases, and to provide recommendations to the management for improvement review and consideration.

Same as in previous years, we are proud that we had no major sales returns or complaints due to product defects during the 2022 Reporting Period.

Customer Services and Complaints Handling

Same as the last few years, our products are sold through wholesale network. The Group provides industry standard guarantees and returns and refund programs if there are quality problems. A customer service unit has been established to collect and analyze returns and rejects cases, and thereafter will explain and give recommendations to the management for improvement review and consideration.

The Group is proud to confirm that there were no major sales returns or complaints due to any product defects during the 2022 Reporting Year, same as the last 3 years.

Intellectual Property Rights

Since our establishment, the Group has designed, manufactured and sold children and infant apparel, footwear and accessories under its trademarked brand name "Red Kids". We promote originality on all our apparel, footwear and accessories and design in-house. The Group attaches great importance to and seriousness in protecting and preserving our intellectual property rights. We have observed the rules for the protection of intellectual right. The Group will continue to enhance the production optimization capabilities in various regions and continue to enhance the maximum flexibility in production configuration in line with the requirements of orders from brand customers and changes in the industry environment.

During the 2022 Reporting Period, and same as last few years, the Group did not receive any reports or cases of any intellectual property rights infringement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Privacy

Arising from the Group's business operations, large volumes of private and confidential and sensitive information of suppliers, co-operation partners including the cooperation status and financial positions, commercial terms of contracts, etc. are inevitably kept by the Group. The Group is fully aware that such information is extremely sensitive and important, and by law must be safeguarded.

The Group is fully aware of our obligations and has taken measures to ensure the safe custody of such information. Potential leakage or loss of information to outsiders could be mainly due to either internal theft through mishandling or hacking into our information systems by outside agents.

The Group has established and implemented administrative security rules and supervisory control procedures to ensure maximum information technology security and data protection. This is supplemented by the relevant provisions in the Employee Handbook and employment contracts stipulating for the protection of information confidentiality. Employees are strictly prohibited from accessing to or release of confidential information without authorized approval from the management. Legal action might be taken against any breach of privacy data violations. To prevent hacking to our information technology systems, the Information Technology Division is charged with the duty and responsibility of continuously monitoring, maintaining and updating all hardware, software and for computer and network system security.

For the 2022 Reporting Period, same as the last 3 years, there was no case filed against us nor any complaint received, regarding any breach of relevant privacy laws, regulations and policies in the jurisdictions in which we operate. The Group will continue with the current policies and measures to maintain a clean record in the coming years.

B7. Anti-corruption Aspect

As an honest and creditable business operation, the Group attaches serious importance and concern in this aspect as any breaches may lead to serious consequences and liabilities to individual officers and office bearers of the Group. We rely on the strict administrative procedures and supervisory measures on this regard to ensure that such breaches or violations are eliminated or could be detected at an early stage before any serious harm is caused.

A system with good moral integrity and anti-corruption mechanism is the cornerstone for the sustainable and healthy development of the Group. The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Group relating to the prevention of bribery, extortion, fraud and money laundering, including but not limited to:

- the Anti-unfair Competition Law of the PRC (中華人民共和國反不正當競爭法);
- the Criminal Law of the PRC (中華人民共和國刑法);
- the General Provisions of the Civil Law of the PRC (中華人民共和國民法總則); and
- the Anti-money Laundering Law of the PRC (中華人民共和國反洗錢法).

The Group's "Work Rules" requires the employees to sign the "Code of Ethics and Integrity Pledge" and the "Confidentiality Undertaking" and to strictly adhere to the applicable laws and regulations relating to the above acts. Once an employee is found in breach of such, it is subject to severe disciplinary sanction including immediate dismissal. All matters relating to this aspect are only handled by the top management. The Group is committed to rendering all possible assistance and co-operation to the government or law enforcing agencies in their enquiry or investigation.

During the 2022 Reporting Period, there was no case on corrupt practice against the Group or our employees detected, same as the previous years. With our management, the Group is confident that corruption case will not happen.

Mutual respect, open and sincere dialogues between employees and the management are part of the culture of the Group. The periodic meetings between employee representatives are the common and formal venues to resolve employee needs, views, suggestions and even grievances. This mode of communication in a fair and earnest manner helps to streamline and minimize whistle-blowing. The Group encourages all whistle-blowing acts and activities and makes sure that there are sufficient protection of such whistle blowers. Messages received will be looked into by the management team at the appropriate level in a timely and impartial manner.

Staff are reminded from time to time of the importance of and need for business integrity and that corruption is not allowed in the Group operations. Whenever training opportunities arise, staff at the appropriate levels, including directors and senior managers, will be nominated to attend and this is an ongoing exercise.

(iii) Community Area

B8. Community Investment Aspect

As a responsible enterprise, the Group always insists to undertake its social obligations to support and to pay back to the local residents, community and environment. The Group fully supports this concern for the community idea and concept and our operating policies and business approach are taking note of its implications and significance to the communities we operate. If possible, we tried to source materials, supplies and services from our operating communities. We provided a pleasant and safe working environment to our workers, and most importantly we provided jobs to several hundred village unskilled workers and trained them up to make a decent living. We also provided them with the chances to promote to higher status jobs. We supported the local community through sending our workers to do voluntary and charity works.

CORPORATE GOVERNANCE REPORT

The Board hereby presents the Corporate Governance Report in the Group's annual report for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. During FY2022, the Board comprised of three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). During FY2022, the Company has complied with the CG Code, except for the deviation as explained below.

Code provision A.2.1 provides that the roles of Chairman and Chief executive should be separate and should not be performed by the same individual. As Mr. Ding Peiji ("**Mr. Ding**") is both the chief executive officer and the chairman of the Board of the Company, the Company is in deviation from code provision A.2.1. The Company considers that vesting the roles of both chairman and chief executive officer in Mr. Ding has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board composition and structure taking into account the background and experience of the Directors.

Code provision C.1.2 provides that management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During FY2022, the management of the Company had not provided regular monthly updates to the members of the Board. The management had provided information and updates to the members of the Board as and when appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during FY2022.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established three Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee (each a "**Board Committee**" and collectively the "**Board Committees**"), to oversee different areas of the Company's affairs.

CORPORATE GOVERNANCE REPORT

The Board currently comprises four executive Directors, namely Mr. Ding Peiji, Mr. Ding Peiyuan, Ms. Ding Lizhen and Mr. Chan Yi Hsiung, and three independent non-executive Directors, namely, Mr. Hung Cho Sing, Mr. Ng Shing Kin and Mr. Chen Jun.

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 53 to 54 of the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

BOARD MEETINGS AND ANNUAL GENERAL MEETING

The attendance of each Director at the Board meetings and annual general meeting are set out below:

Name of Directors	Annual General Meeting attendance/held	Board Meetings attendance/held
Mr. Ding Peiji	1/1	10/10
Mr. Ding Peiyuan	1/1	10/10
Ms. Ding Lizhen	1/1	10/10
Mr. Chan Yi Hsiung (appointed on 22 July 2022)	0/0	4/4
Mr. Hung Cho Sing	1/1	10/10
Mr. Ng Shing Kin (appointed on 5 July 2022)	0/0	5/5
Mr. Chen Jun (appointed on 31 October 2022)	0/0	0/0
Mr. Chan Wai Wong (resigned on 31 October 2022)	1/1	10/10
Mr. Wu Shiming (resigned on 28 June 2022)	0/1	0/4

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' INSURANCE

Appropriate insurance coverage has been arranged in respect of potential legal actions against the Directors and officers of the Company.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

All Directors are provided with regular updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors by way of seminars or reading materials circularization to ensure compliance and enhance their awareness of good corporate governance practices. According to the records provided by the Directors, a summary of training received by the Directors during the year is as follows:

Directors	**Type of continuous professional development programmes**
Executive Directors	
Mr. Ding Peiji	A
Mr. Ding Peiyuan	A
Ms. Ding Lizhen	A
Mr. Chan Yi Hsiung (appointed on 22 July 2022)	A
Independent Non-executive Directors	
Mr. Hung Cho Sing	A
Mr. Ng Shing Kin (appointed on 5 July 2022)	A
Mr. Chen Jun (appointed on 31 October 2022)	A

Note:

A: reviewing materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted confirmation of his/her independence to the Company pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by three committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

(i) Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Ng Shing Kin and Mr. Chen Jun, Mr. Ng Shing Kin, who has appropriate professional qualifications and experience in accounting matters, was appointed as the Chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems and relationship with external auditors of the Group, oversee the audit process and perform other duties and such responsibilities as assigned by the Board. These include reviewing the Group's interim and annual reports.

The Audit Committee has held three meetings during the year ended 31 December 2022. Major tasks completed by the Audit Committee during the year include:

- reviewing the annual audit plan submitted by the external auditors of the Company;
- reviewing the Group's interim and annual reports;
- reviewing accounting policies and practices adopted by the Group;
- reviewing the external auditor's qualifications, independence and audit fee;
- reviewing the external auditor's management letter and the management's response; and

CORPORATE GOVERNANCE REPORT

- assisting the Board to evaluate on the effectiveness of financial reporting procedures and internal control system.

The attendance records of each member of the Audit Committee are set out in the following table:

	Audit Committee meeting attendance/held
Independent non-executive Directors	
Mr. Hung Cho Sing	3/3
Mr. Ng Shing Kin (appointed on 5 July 2022)	2/2
Mr. Chen Jun (appointed on 31 October 2022)	1/1
Mr. Chan Wai Wong (resigned on 31 October 2022)	1/1
Mr. Wu Shiming (resigned on 28 June 2022)	0/1

(ii) Remuneration Committee

The Remuneration Committee comprises two independent non-executive Directors and one executive Director, namely Mr. Hung Cho Sing, Mr. Chen Jun and Mr. Ding Peiyuan. Mr. Hung Cho Sing is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee are to review and make recommendations to the Board on the overall remuneration structure and policy for all Directors and senior management as well as the specific remuneration packages for the executive Directors and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

The Remuneration Committee has held three meeting during the year ended 31 December 2022. All members of the Remuneration Committee have attended the meeting and reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2022 is set out below:

Remuneration bands	**Number of persons**
Nil to HK$1,000,000	2

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

(iii) Nomination Committee

The Nomination Committee comprises two independent non-executive Directors and one executive Director, namely Mr. Chen Jun, Mr. Ng Shing Kin and Ms. Ding Lizhen. Mr. Chen Jun is the Chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Nomination Policy and Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Nomination Policy and Board Diversity Policy (as defined below), so as to develop and review measurable objectives for the implementing the Board Nomination Policy and Board Diversity Policy (as defined below) and to monitor the progress on achieving these objectives.

The Nomination Committee has held three meetings during the year ended 31 December 2022. All members of the Nomination Committee have attended the meeting and reviewed the size, diversity and composition of the Board.

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 16 December 2013 in compliance with provision D.3.1 of the Code Provisions, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Code Provisions and relevant disclosure in the corporate governance report of the annual report of the Company.

The Board has performed the abovementioned corporate governance functions during the year ended 31 December 2022.

BOARD PROCEEDINGS

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14-day prior notice, and agenda with supporting papers sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate.

CORPORATE GOVERNANCE REPORT

Minutes of meetings of the Board and Board Committees are kept by the Company Secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors of the Company has entered into a service contract with the Company for an initial term of three years commencing on the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other which notice shall not expire until after the fixed term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the appointment. Each of the Directors will be subject to retirement and re-election at annual general meeting of the Company in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the Shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the Shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the Shareholders.

BOARD NOMINATION POLICY

The Nomination Committee shall endeavor to find individuals of high integrity who have a solid record of accomplishment in their chosen fields and who possess the qualifications, qualities and skills to effectively represent the best interests of the Group and its shareholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives. Candidates also will be assessed in the context of the then-current composition of the Board, the operating requirements of the Group. In conducting this assessment, the Nomination Committee will, in connection with its assessment and recommendation of candidates for director, consider diversity (including, but not limited to, gender, race, ethnicity, age, experience and skills) and such other factors as it deems appropriate given the then current and anticipated future needs of the Board and the Company, and to maintain a balance of perspectives, qualifications, qualities and skills on the Board.

The Nomination Committee considers the following qualifications at a minimum to be required of any Board members in recommending to the Board potential new board members, or the continued service of existing members:

- the highest professional and personal ethics;
- broad experience in business;
- ability to provide insights and practical wisdom based on their experience and expertise;
- commitment to enhancing shareholder value;
- sufficient time to effectively carry out their duties; their service on other boards of public companies should be limited to a reasonable number;
- compliance with legal and regulatory requirements; and

- ability to develop a good working relationship with other Board members and contribute to the Board's working relationship with senior management of the Group.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") on 16 December 2013. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

The Board also aspires to having an appropriate proportion of directors who have direct experience in the Group's core markets and distribution channels. The ultimate decision will be based on the merit and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

The Board considered that Independent Directors can enhance the effectiveness and decision-making of the Board by providing independent view, objective judgement and constructive challenge to the Board and management of the Group.

The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

Having reviewed the Board composition, the Board recognises the importance and benefits of gender diversity at the Board level and shall continue to take initiatives to enhance the gender diversity among the Board members.

COMPANY SECRETARY

Mr. Pang Wing Hong was appointed as a Company Secretary of the Company since 19 October 2015 and also serves as the secretary of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Pang is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters.

Mr. Pang confirmed that he has taken not less than 15 hours of relevant professional training during the year ended 31 December 2022 in accordance with the provisions under Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of HLB Hodgson Impey Cheng Limited, the Company's external auditors, with respect to financial reporting are set out in the section headed "Independent Auditors' Report" in this annual report.

Internal control

The Board is responsible for maintaining sound and effective risk management and internal control systems to safeguard the investments of the shareholders and the assets of the Company. However, it should be noted that the Company's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board monitors the risk management and internal control systems principally through the external professional adviser, and is committed to conducting, at least annually, a review of the effectiveness of the risk management and internal control systems of the Group.

The external professional adviser is assigned with the task to perform reviews on operational, financial and compliance aspects and will alert the management on the review findings or irregularities, if any, advise on the implementation of necessary steps and actions to enhance the internal control systems of the Group. The result of internal control review and agreed action plans are reported to the Audit Committee and the Board.

EXTERNAL AUDITORS

During the year ended 31 December 2022, the fees payable to HLB Hodgson Impey Cheng Limited in respect of its audit services were RMB0.8 million (2021: RMB0.8 million). There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the years ended 31 December 2022 and 2021.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all its Shareholders an equal opportunity to exercise their rights in an informed manner and allow all Shareholders to engage actively with the Company. Under the Company's articles of association, the Shareholder communication policy and other relevant internal procedures of the Company, the Shareholders of the Company enjoy, among others, the following rights:

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the Shareholders no less than 20 business days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the registered office of the Company in Hong Kong currently situated at Room 1601, Ho King Commercial Centre, 2–16 Fa Yuen Street, Mongkok, Kowloon, Hong Kong or via email to ir@redkids.com.

(iii) Convening extraordinary general meetings

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at Room 1601, Ho King Commercial Centre, 2–16 Fa Yuen Street, Mongkok, Kowloon, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

CORPORATE GOVERNANCE REPORT

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at Shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

(iv) Procedures for proposing a person for election as a Director

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

INVESTOR RELATIONS AND COMMUNICATION

The Company recognises the importance of communication with Shareholders and accountability to Shareholders. Annual and interim reports offer comprehensive operational and financial performance information to Shareholders. The Company's senior management also maintains close communication with investors, analysts and the media by other channels including roadshows, briefings and individual meetings. The Company has set up its own website http://www.redkids.com, which is updated on a regular basis, as a means to provide updated information on the Company to investors.

The Company has reviewed the Shareholders' communication policy and believes that the Company has provided investors with multiple channels for investors to understand the Group's business and operations, as well as channels for investors to express their opinions and comments. The Company also actively responded to the feedback from investors. Based on this, the Company believes that the Shareholders' communication policy implemented during the Year is sufficient and effective.

CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2022.

The Listing Rules have been amended with effect from 1 January 2022 which requires, among others, listed issuers to adopt a uniform set of 14 "Core Standards" for shareholder protections. As such, the Board proposes the Amendments to, among others, (i) bring the Memorandum and Articles in line with amendments made to the Listing Rules and applicable laws of the Cayman Islands; and (ii) make certain house-keeping amendments to the Memorandum and Articles for the purpose of clarifying the existing practice. A special resolution will be proposed at the annual general meeting of the Company for the shareholders of the Company to, among others, consider and, if thought fit, approve the proposed Amendments and adoption of the New Memorandum and Articles. The New Memorandum and Articles will come into effect on the date on which the special resolution is duly passed at the annual general meeting of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Ding Peiji, aged 53, is the founder of the Group. He is also the chief executive officer and the chairman of the Board of our Company. He was appointed as an executive Director on 15 March 2013. He is also the chairman of board of directors of Red Kids (China) Co., Ltd. ("**Red Kids China**"), a principal operating subsidiary of the Group. Mr. Ding has over 20 years of experience in the apparel and retail industry and is primarily responsible for our overall corporate strategies, planning and business development. His social undertakings include the vice Chairman for the second term of the Children's Wear Expert Committee of China National Garment Association(中國服裝協會童裝專業委員會)appointed in September 2009, the vice president for the first and second term of the Quanzhou Textile & Garments Commerce Chamber(泉州市紡織服裝商會)appointed in May 2002 and November 2008, respectively, a standing council member for the first term of the Federation of Industry & Commerce of Quanzhou Qingmeng Scientific & Technological Industrial Zone(泉州市清濛科技工業園區工商業聯合會) appointed in August 2002, and a Supervisor of Qingmeng Scientific & Technological Industrial Zone for Honest and Efficient Governance(清濛科技工業區勤政廉政監督員)appointed in July 2002. He completed the Advanced Management Programme by China Europe International Business School (中歐國際工商學院)in 2010.

Mr. Ding Peiji is the brother of Mr. Ding Peiyuan and Ms. Ding Lizhen, both of whom are our executive Directors.

Mr. Ding Peiyuan, aged 51, was appointed as an executive Director and chief operating officer on 16 December 2013. He is also the vice general manager of Red Kids China. Mr. Ding has over 20 years of experience in the production and sales of apparel and retail industry and is primarily responsible for the formulation and execution of business development strategies of the Group. He completed the Advanced Management Programme by China Europe International Business School(中歐國際工商學院) in 2009.

Mr. Ding Peiyuan is the brother of Mr. Ding Peiji and Ms. Ding Lizhen, both being our executive Directors.

Ms. Ding Lizhen, aged 58, was appointed as an executive Director and vice president on 16 December 2013. She is also the vice general manager of Red Kids China. Ms. Ding has over 20 years of experience in the apparel and retail industry and is primarily responsible for the production management and product development of the Group.

Ms. Ding Lizhen is the sister of Mr. Ding Peiji and Mr. Ding Peiyuan, both of whom are our executive Directors.

Mr. Chan Yi Hsiung, aged 51, was appointed as an executive Director on 22 July 2022. Mr. Chan has over 25 years of working experience in management position and has served for supply chain management, financial technology and banking industries.

Mr. Chan is currently the vice general manager of a private limited company and responsible for supply chain management. Mr. Chan holds a master degree from Fu Jen Catholic University Institute of Economics in Taiwan.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hung Cho Sing, aged 83, was appointed as an independent non-executive Director of our Company on 14 April 2016 and has over 50 years of experience in the film distribution industry and founded Delon International Film Corporation in 1970. Mr. Hung has been the chairman of Hong Kong, Kowloon and New Territories Motion Picture Industry Association Limited since 1991 and was the chairman of Hong Kong Film Awards Association Limited from 1993 to 1995. Mr. Hung was appointed by the Hong Kong Special Administrative Region (**HKSAR**) Government as a member of the Hong Kong Film Development Council from 2007 to 31 March 2013. Mr. Hung was also appointed as a consultant of the China Film Association since 2013. Mr. Hung is also a member of HKSAR Election Committee and a vice chairman of the Cultural Profession Committee of the Guangdong, Hong Kong and Macau Cooperation Promotion Council (廣東省粵港澳合作促進會文化專業委員會副主任委員). Mr. Hung was awarded the Bronze Bauhinia Star (BBS) by the HKSAR Government in 2005 in recognition of his contribution to the Hong Kong film industry. Mr. Hung has been appointed by the HKSAR Government as member of the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under the Economic Development Commission since January 2013.

Mr. Hung is an executive director of EJE (Hong Kong) Holdings Limited (stock code: 8101). He is also an independent non-executive director of China Star Entertainment Limited (stock code: 326), Harbour Digital Asset Capital Limited (formerly known as Unity Investments Holdings Limited) (stock code: 913), KOALA Financial Group Limited (stock code: 8226) and Oshidori International Holdings Limited (stock code: 622). Mr. Hung was a non-executive director of Universe Entertainment and Culture Group Company Limited (stock code: 1046) from 1 February 2019 to 31 July 2019. All these companies are listed on the Stock Exchange in Hong Kong.

Mr. Ng Shing Kin, aged 42, was appointed as an independent non-executive Director of our Company on 5 July 2022. Mr. Ng has over 10 years of experience in audit and accounting. Mr. Ng has been a certified public accountant accredited by the Hong Kong Institute of Certified Public Accountants since 2012 and obtained a practising certificate since 2017. Mr. Ng has also been a certified financial risk manager admitted by the Global Association of Risk Professionals since 2008.

Mr. Ng has been the financial controller and company secretary of Royal Catering Group Holdings Company Limited, the shares of which is listed on GEM of the Stock Exchange (stock code: 8300), since November 2015. Mr. Ng has been the company secretary of Ying Hai Group Holdings Company Limited, the shares of which is listed on GEM of the Stock Exchange (stock code: 8668), since February 2019 and has also been the company secretary of Jiujiuwang Food International Limited, the shares of which is listed on Main Board of the Stock Exchange (stock code: 1927), since June 2021. Mr. Ng is currently an independent non-executive director of WMCH Global Investment Limited, the shares of which is listed on GEM of the Stock Exchange (stock code: 8208).

Mr. Ng was a company secretary of WT Group Holdings Limited, a company listed on GEM of the Stock Exchange (stock code: 8422) from March 2021 to July 2021.

Mr. Ng obtained a honours diploma in business administration from Hong Kong Shue Yan College in July 2005 and a master degree in business administration from the University of Louisiana, Monroe through long distance learning. In November 2007, Mr. Ng further obtained a postgraduate diploma in professional accounting from Hong Kong Baptist University.

Mr. Chen Jun, aged 53, was appointed as an independent non-executive Director of our Company on 31 October 2022. Mr. Chen obtained a Bachelor of Economics from Dongbei University of Finance and Economics in the PRC in 1991. Mr. Chen is a practicing member of the Chinese Institute of Certified Public Accountants. He joined Ningbo Desheng Certified Public Accountants since 2019 and is currently served as the senior auditor. Mr. Chen has over 30 years of extensive experience in general management, investment, finance, accounting and auditing in different industries.

REPORT OF THE DIRECTORS

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands. The Group's principal place of business is in Mainland China.

PRINCIPAL ACTIVITIES

The principal activities of the Group are wholesaling and retailing of branded children's apparel in Mainland China. The principal activities and other particulars of the subsidiaries are set out in note 30 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, aggregate sales to the Group's largest and five largest customers accounted for 20.5% (2021: 21.0%) and 77.9% (2021: 71.3%), respectively, of the Group's total turnover for the year.

During the year ended 31 December 2022, aggregate purchases from the Group's largest and five largest suppliers of raw materials and OEM products accounted for 33.6% (2021: 30.1%) and 75.2% (2021: 74.1%), respectively, of the Group's total purchases for the year.

At no time during the year have the Directors, their close associates or any Shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2022 are provided in the Chairman's Statement, Management's Discussion and Analysis, the ESG Report and Corporate Governance Report of this annual report.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 162 of the annual report. This summary does not form part of the audited consolidated financial statements.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2022 and the state of the Company's and the Group's affairs as at that date are set out in financial statements on pages 76 to 161 of the annual report.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2022 are set out in note 11 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 25 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The distributable reserve of the Company as at 31 December 2022 was RMB88,108,000 (2021: RMB80,370,000) as calculated based on the Company's share premium, capital reserves and accumulated profit under applicable provisions of the Companies Law in the Cayman Islands.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

No interim dividend was paid for the year of 2022 (2021: Nil).

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year of 2022 (2021: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to fashion business and some are from external sources. Major risks are summarized below.

(i) Fashion risk

Our success depends on our ability to define products trends and anticipate, gauge and react to changing consumer demands in a timely manner. Failure to anticipate and respond timely to changing consumer preferences could lead to lower sales and excess inventory levels. Within each design concept it is important to have the right volumes and achieve the right balance in the mix between fashion basics and the latest trends. To optimize fashion precision, we introduce products in different batches throughout the season and will further shorten the product development cycle in order to reduce the lead time between production and delivery to customers. In addition, shopping patterns and the length of product seasons can vary in different provinces in Mainland China. Accordingly, we adjust the delivery dates and product volumes for the various markets and stores depending on market condition.

(ii) Intense competition

We compete not only with local Chinese brands, but also with other international fashion brands. Areas of competition include product designs, production costs, marketing programs, customer services, etc. If we do not respond timely to our competitors, our costs may increase or the consumer demand for our products may decline and our revenue and profits would decrease.

(iii) Macroeconomic environment

The risk exists that negative macroeconomic changes may result in negative changes in the business environment. Fashion products may be considered as discretionary items for customers. Slower consumer spending may result in reduced demand for our products, reduced orders from our distributors, order cancellations, higher discounts, increased inventories, lower revenue and margins. It is therefore important for the Group to be aware of any such changes of economic environment and adjusts its store opening plan, buying volume and business plan under different market conditions.

(iv) Supply chain

We do own or operate a manufacturing facility but depend mostly upon independent manufacturers to produce all of our products and materials. Any disruption in the supply of fabric, raw materials and products from suppliers may cause problems in our supply chain. We have no long-term contracts with any of our suppliers and we may need to compete with other companies for fabrics, raw materials and apparel products. Nevertheless, we have developed long-standing relationships with a number of our vendors so as to minimize the impact from any supply disruptions and ensure we can locate alternative suppliers of comparable quality at a reasonable price all the time.

(v) Financial health of our distributors

We extend credit to our distributors based on assessments of their financial conditions, repayment history and sales performance of the retail outlets operated by them, generally without requiring collateral. To assist in the scheduling of production of our products, our customers could place orders four to five months ahead of delivery under our sales fair ordering system. These advance orders may be cancelled and the risk of cancellation may increase when dealing with distributors struggling with financial difficulties. A slowing economy could also adversely affect the financial health of our customers, which in turn could have an adverse effect on our results of operation. In addition, product sales are dependent in part on an appealing store environment to attract consumers, which requires continuing investments by distributors. Distributors that experience financial difficulties may fail to make such investments and result in lower sales and orders for our products.

REPORT OF THE DIRECTORS

(vi) Information system

We are dependent on information technology systems and networks, including the internet and third-party hosted services across many of our operating activities, including sales and distribution, ordering and purchases, sales and distribution, inventory management in all retail outlets, e-commerce business, customer relationship management, digital marketing and financial reporting. Any material disruption or slowdown of our IT systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, system failures, viruses or cyber attacks could cause a loss of data or operation interruption. Therefore, we invest continuously in our IT and ERP system so as to keep up with the technology security and availability and integrity of critical operation data.

(vii) Reputational risk

Miko is one of the leading brands and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining and promoting our brands will depend on our product design, marketing efforts and product quality. In addition, effect of our marketing activities depends on our ability to adapt to the rapidly changing media environment, including social media and online advertising campaigns. Should existing and potential customers lose confidence in Miko and/or one of its brands, or in the industry in general, because of negative publicity, the Group's sales would decrease. To safeguard and manage the brand, it is important that the Group continues to uphold its brand value, corporate image, product safety and maintain high business ethics. In addition, it is also important that communication with our shareholders, customers and other stakeholders is accurate, transparent and reliable.

(viii) Weather

Extreme weather conditions in the areas in which our retail stores, suppliers and customers are located could adversely affect our operating results and financial condition.

KEY RELATIONSHIPS

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides pre-employment and on-the-job training and development opportunities to our staff members. The training programs cover areas such as managerial skills, sales and production, customer services, quality control, sales fairs planning, workplace ethics and training of other areas relevant to the industry.

We seriously consider all valuable feedback from our employees for enhancing workplace productivity and harmony. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option schemes to recognize and reward the contribution of the employees to the growth and development of the Group.

(ii) Suppliers

We have developed long-standing relationships with a number of our vendors and take great care to ensure that they share our commitment to quality and ethics. We carefully select our OEM and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness. We also require our OEMs to comply with our anti-bribery policy.

(iii) Distributors

We sell our products to end customers through third-party distributors. We work with our distributors like we are business partners and ensure we share the view for upholding our brand value and customer services, specifically focusing on attracting and retaining customers in order to drive sales growth. We and our distributors reach an agreement on retail sales target and store expansion plan before they place their orders. We require our distributors and sub-distributors to comply with our retail policies, including but not limited to nationwide product retail selling price, standard store images, promotional activities and use of our ERP system. We also monitor the financial condition and repayment history of our distributors, and retail sales performance of the stores operated by them.

(iv) Customers

We are committed to offer a broad and diverse range of inspiring, value-for money, good-quality fashion with our various brands to our customers. We also stay connected with our customers. We maintain our VIP database and have ongoing communications with our customers through various channels like the Company's website, telephone, direct mail, marketing materials and social media. We also work with our distributors and provide training to their key sales personnel to provide quality and value-added customer services at retail channels.

ENVIRONMENTAL POLICIES

We are committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycling of office supplies and other materials. We also require factories of our OEM to operate in strict compliance with the relevant environmental regulations and rules and possess all necessary permission and approval from the relevant Chinese regulators.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in Mainland China and Hong Kong. During the year ended 31 December 2022 and up to the date of this report, we have complied with all the relevant laws and regulations in Mainland China and Hong Kong.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company was incorporated.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during FY2022.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Ding Peiji *(Chairman)*
Mr. Ding Peiyuan
Ms. Ding Lizhen
Mr. Chan Yi Hsiung (appointed on 22 July 2022)

Independent non-executive Directors

Mr. Hung Cho Sing
Mr. Ng Shing Kin (appointed on 5 July 2022)
Mr. Chen Jun (appointed on 31 October 2022)
Mr. Chan Wai Wong (resigned on 31 October 2022)
Mr. Wu Shiming (resigned on 28 June 2022)

Each of the executive Directors of the Company has entered into a service contract with the Company for an initial term of three years commencing on the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other which notice shall not expire until after the fixed term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing on the date of appointments. Each of the Directors will be subject to retirement and re-election at annual general meeting in accordance with the Company's articles of association. The details of the remuneration of each of the Directors are revealed on note 8 to the financial statements.

REPORT OF THE DIRECTORS

Details of the Directors' biographies have been set out on pages 53 to 54 of the annual report. In accordance with article 84 of the Company's articles of association, Mr. Ding Peiji, Mr. Ding Peiyuan, Mr. Chan Yi Hsiung, Mr. Ng Shing Kin and Mr. Chen Jun will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The list of names of all directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website (http://www.redkids.com).

DIRECTORS' SERVICE CONTRACTS

None of the Directors has or proposed to have an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2022.

RELATED PARTY TRANSACTION

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2022 are set out in note 27 to the consolidated financial statements. To the best knowledge of the Directors, save as disclosed in the note, none of these related party transactions constitute connected transactions or continuing connected transactions that need to be disclosed under the Listing Rules.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

The Shares of the Company were listed on the Main Board of the Stock Exchange on 15 January 2014. As at 31 December 2022, the interests or short positions of the Directors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, will be as follows:

Interests and short positions in the shares, underlying shares and debentures and associated corporations:

Long positions in the Company

Name of Directors	Nature of interest	Capacity	Number of Shares	Approximate percentage of shareholding[7]
Mr. Ding Peiji[1]	L[4]	Interest in a controlled corporation	24,817,669	17.51%
		Beneficial owner	373,200	0.26%
		Beneficial owner	90,000[6]	0.06%
Ms. Ding Lizhen[2]	L[4]	Interest in a controlled corporation	4,224,000	2.98%
		Beneficial owner	80,000[5]	0.05%
		Beneficial owner	900,000[6]	0.64%
Mr. Ding Peiyuan[3]	L[4]	Interest in a controlled corporation	4,231,200	2.99%
		Beneficial owner	80,000[5]	0.05%
		Beneficial owner	960,000[6]	0.68%

Notes:

(1) Think Wise Holdings Investment Limited ("**Think Wise**") is wholly-owned and controlled by Mr. Ding Peiji. Accordingly, Mr. Ding is deemed to be interested in all the Shares in which Think Wise is interested pursuant to the SFO.

(2) Snowy Wise Limited ("**Snowy Wise**") is wholly-owned and controlled by Ms. Ding Lizhen, an executive Director. Accordingly, Ms. Ding Lizhen is deemed to be interested in all the Shares in which Snowy Wise is interested pursuant to the SFO.

(3) Rightful Style Limited ("**Rightful Style**") is wholly-owned and controlled by Mr. Ding Peiyuan, an executive Director. Accordingly, Mr. Ding Peiyuan is deemed to be interested in all the Shares in which Rightful Style is interested pursuant to the SFO.

(4) The letter "L" denotes long position.

(5) Each of Ms. Ding Lizhen and Mr. Ding Peiyuan, an executive Director, has been granted an option to subscribe for 80,000 Shares under the Pre-IPO Share Option Scheme.

(6) Each of Mr. Ding Peiji, Ms. Ding Lizhen and Mr. Ding Peiyuan, an executive Director, has been granted an option to subscribe for 90,000, 900,000 and 960,000 Shares respectively under the Share Option Scheme granted on 2 November 2018.

(7) The calculation is based on the total number of 141,696,000 ordinary Shares of the Company in issue as at 31 December 2022, without taking into account any Shares to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme.

Save as disclosed above, as at 31 December 2022, none of the Directors and the chief executives of the Company and their respective close associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

The Shares of the Company were listed on the Main Board of the Stock Exchange on 15 January 2014. As at 31 December 2022, the persons or corporations other than a Director or chief executive of the Company who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Nature of interest	Capacity	Number of Shares	Approximate percentage of shareholding[8]
Think Wise[1]	L[4]	Beneficial owner	24,817,669	17.51%
Mr. Ding[1]	L[4]	Interest in a controlled corporation	24,817,669	17.51%
		Beneficial owner	373,200	0.26%
		Beneficial owner	90,000[6]	0.06%
Snowy Wise[2]	L[4]	Beneficial owner	4,224,000	2.98%
Ms. Ding Lizhen[2]	L[4]	Interest in a controlled corporation	4,224,000	2.98%
		Beneficial owner	80,000[5]	0.05%
		Beneficial owner	900,000[6]	0.64%
Rightful Style[3]	L[4]	Beneficial owner	4,231,200	2.99%
Mr. Ding Peiyuan[3]	L[4]	Interest in a controlled corporation	4,231,200	2.99%
		Beneficial owner	80,000[5]	0.05%
		Beneficial owner	960,000[6]	0.68%
Goldrun Limited[7]	L[4]	Beneficial owner	16,480,000	11.63%
Mr. Chen Hsin Fu[7]	L[4]	Interest in a controlled corporation	16,480,000	11.63%

REPORT OF THE DIRECTORS

Notes:

(1) Think Wise is wholly-owned and controlled by Mr. Ding. Accordingly, Mr. Ding is deemed to be interested in all the Shares in which Think Wise is interested pursuant to the SFO.

(2) Snowy Wise is wholly-owned and controlled by Ms. Ding Lizhen, an executive Director. Accordingly, Ms. Ding Lizhen is deemed to be interested in all the Shares in which Snowy Wise is interested pursuant to the SFO.

(3) Rightful Style is wholly-owned and controlled by Mr. Ding Peiyuan, an executive Director. Accordingly, Mr. Ding Peiyuan is deemed to be interested in all the Shares in which Rightful Style is interested pursuant to the SFO.

(4) The letter "L" denotes long position.

(5) Each of Ms. Ding Lizhen and Mr. Ding Peiyuan, an executive Director, has been granted an option to subscribe for 80,000 Shares under the Pre-IPO Share Option Scheme.

(6) Each of Mr. Ding Peiji, Ms. Ding Lizhen and Mr. Ding Peiyuan, an executive Director, has been granted an option to subscribe for 90,000, 900,000 and 960,000 Shares respectively under the Share Option Scheme granted on 2 November 2018.

(7) Based on the notices of disclosures of interests of Goldrun Limited and Mr. Chen Hsin Fu each filed with the Stock Exchange dated 27 April 2022, these interests are held by Goldrun Limited, which is wholly owned by Mr. Chen Hsin Fu.

(8) The calculation is based on the total number of 141,696,000 ordinary Shares in issue as at 31 December 2022 without taking into account of any Shares to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme.

Save as disclosed above, as at 31 December 2022, the Company is not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of Part XV of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 27 to the financial statements, no contract of significance in relation to the Group's business to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, a Director or a former Director of the Company may be indemnified out of the Company's assets against any liability incurred by the Director to a person other than the Company or an associated company of the Company that attaches to such Director in his or her capacity as a Director of the Company, to the extent permitted by law.

The Company has also taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its Directors and officers.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in note 27 to the financial statements, there had been no contract of significance between the Company or any of its subsidiaries and controlling Shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries or any contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling Shareholders of the Company or any of its subsidiaries during the year.

COMPETING BUSINESS

None of the Directors of the Company had any interests in any business which competes or are likely compete, either directly or indirectly, with the business of the Company or any of its subsidiaries during the year. Each of Mr. Ding Peiji and Think Wise (the controlling Shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 16 December 2013. The independent non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with during the year.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Company adopted a pre-initial public offering share option scheme (the "**Pre-IPO Share Option Scheme**") and a share option scheme (the "**Share Option Scheme**") on 27 December 2013 for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 27 December 2013 for the purpose of giving our employees an opportunity to have a personal stake in our Company and help motivate our employees to optimize their performance and efficiency, and also to retain our employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 7,000,000 Shares were conditionally granted to 21 participants on 27 December 2013 (the "**Pre-IPO Share Options**"). The exercise price per Share is HK$1.82 (HK$18.2 after Share Consolidation), being 80% of the global offering price. No further options could be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. Each Pre-IPO Share Option has an eight-year exercise period and can only be exercised in the following manner:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the first anniversary of the Listing Date	30% of the Pre-IPO Share Options granted
Any time after the second anniversary of the Listing Date	30% of the Pre-IPO Share Options granted
Any time after the third anniversary of the Listing Date	40% of the Pre-IPO Share Options granted

REPORT OF THE DIRECTORS

The table below sets forth the movement of the Pre-IPO Share Options during the year.

		Number of Pre-IPO Share Options			
Name	**As at 1 January 2022**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**As at 31 December 2022**
Directors					
Mr. Ding Peiyuan	80,000	–	–	–	80,000
Ms. Ding Lizhen	80,000	–	–	–	80,000
Others					
In aggregate	130,000	–	–	–	130,000
Total	290,000	–	–	–	290,000

Share Option Scheme

The Company adopted the Share Option Scheme on 27 December 2013 for the purpose of rewarding certain eligible persons for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on the Listing Date.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors or proposed director (including non-executive director and independent non-executive directors) of the Company or any of its subsidiaries; any direct or indirect Shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date, i.e. 80,000,000 shares of the Company. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

The maximum number of shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors of the Company. In addition, where any grant of options or awards to an independent non-executive director or a substantial shareholder of the Company, or any of their respective associates, would result in the shares issued and to be issued in respect of all options and awards granted (excluding any options and awards lapsed in accordance with the terms of the scheme) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of shares in issue, such further grant of options or awards must be approved by shareholders of the Company in general meeting in the manner set out in Rule 17.04(4) of the Listing Rules.

The exercise period of the share options granted is determinable by the Directors, which period may commence on the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

REPORT OF THE DIRECTORS

Details of movement in the share options as at 31 December 2022 which have been granted under the Share Option Scheme are as follows:

Name	Outstanding as at 1 January 2022	Granted during the year ended 31 December 2022	Exercised during the year ended 31 December 2022	Cancelled during the year ended 31 December 2022	Outstanding during the year ended 31 December 2022	Exercise Price	Date of grant	Exercisable period
Directors								
Mr. Ding Peiji	90,000	–	–	–	90,000	1.07	2 November 2018	2 November 2019 - 1 November 2028
Ms. Ding Lizhen	900,000	–	–	–	900,000	1.07	2 November 2018	2 November 2019 - 1 November 2028
Mr. Ding Peiyuan	960,000	–	–	–	960,000	1.07	2 November 2018	2 November 2019 - 1 November 2028
Mr. Hung Cho Sing	90,000	–	–	–	90,000	1.07	2 November 2018	2 November 2019 - 1 November 2028
Mr. Chan Wai Wong (resigned on 31 October 2022)	90,000	–	–	–	90,000	1.07	2 November 2018	2 November 2019 - 1 November 2028
Mr. Wu Shiming (resigned on 28 June 2022)	90,000	–	–	–	90,000	1.07	2 November 2018	2 November 2019 - 1 November 2028
Employees	2,580,000	–	–	–	2,580,000	1.07	2 November 2018	2 November 2019 - 1 November 2028
Others*	3,200,000	–	–	–	3,200,000	1.07	2 November 2018	2 November 2019 - 1 November 2028
Total	8,000,000	–	–	–	8,000,000			

* Comprise of customers and consultants of the Company.

As at the date of this report, no share option granted the Share Option Scheme were lapsed during the year ended 31 December 2022.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Equity-settled Share Based Payments" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 2 to the financial statements.

DIVIDEND POLICY

The Company has adopted a dividend policy that aims to enhance transparency of the Company and facilitate Shareholders and investors to make informed investment decisions in relation to the Company (the "**Dividend Policy**").

According to the Dividend Policy, the Board shall take into account, inter alia, the following factors in deciding whether to propose a dividend and in determining the dividend amount:

(i) the Group's financial results;
(ii) the financial condition of the Group;
(iii) future cash requirements and availability for business operations, business strategies and future development needs;
(iv) any restrictions on payment of dividends that may be imposed by the Group's lenders;
(v) the retained earnings and distributable reserves of the Company and each of the members of the Group;
(vi) the general market conditions; and
(vii) any other factors that the Board may consider appropriate.

The payment of the dividend by the Company is also subject to any restrictions under the applicable laws and the relevant provisions of articles of association of the Company.

Any declaration and/or payment of future dividends under the Dividend Policy are/is subject to the Board's determination and would be in the best interests of the Group and the Shareholders as a whole. The Board will review the Dividend Policy from time to time.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period of the Group.

REPORT OF THE DIRECTORS

AUDITORS

A resolution will be proposed at the 2023 AGM to re-appoint HLB Hodgson Impey Cheng Limited as auditors of the Company.

APPRECIATION

I would like to take this opportunity to thank my fellow Directors, as well as the management and all our employees for the contribution they have made towards the Group's continued progress, and to thank all our shareholders, customers and business partners for their support.

On behalf of the Board

Ding Peiji
Chairman

Hong Kong, 28 March 2023

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
MIKO INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands limited liability)

OPINION

We have audited the consolidated financial statements of Miko International Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 76 to 161, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS

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

Key audit matter	**How our audit addressed the key audit matter**
Allowance for expected credit loss recognised on trade receivables **Refer to Notes 2, 3 and 17 to the consolidated financial statements**	
As at 31 December 2022, the Group had gross trade receivables of approximately RMB97,335,000 with the allowance for expected credit loss of approximately RMB11,960,000. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of allowance for expected credit loss based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to management's estimated allowance for expected credit loss of trade receivable as at 31 December 2022 included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2022 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and • Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We found that the management judgement and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

OTHER INFORMATION

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

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

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

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

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Fong Ka Yiu.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Fong Ka Yiu
Practising Certificate Number: P08080

Hong Kong, 28 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022 (Expressed in Renminbi)

	Note	**2022 RMB'000**	2021 RMB'000
Turnover	4	**142,415**	136,685
Cost of sales		**(115,212)**	(105,211)
Gross profit		**27,203**	31,474
Other revenue	5	**1,314**	1,038
Written down on inventories	6(c)	**(2,633)**	(1,395)
Reversal of allowance/(allowance) for expected credit loss on trade and other receivables, net	26(a)	**976**	(2,352)
Gain on derecognition of convertible bonds	6(c)	**–**	2,760
Selling and distribution expenses		**(17,085)**	(25,319)
Administrative and other operating expenses		**(19,769)**	(19,834)
Impairment loss on investment in an associate	15	**–**	(2,329)
Share of results from an associate	15	**3,647**	(4,378)
Loss from operations		**(6,347)**	(20,335)
Finance costs	6(a)	**(3,974)**	(4,654)
Loss before taxation	6	**(10,321)**	(24,989)
Income tax expenses	7(a)	**–**	–
Loss for the year attributable to shareholders of the Company		**(10,321)**	(24,989)
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**1,112**	542
Total comprehensive loss for the year attributable to shareholders of the Company		**(9,209)**	(24,447)
Loss per share *(RMB cents)*			
– Basic and diluted	10	**(7.75)**	(22.2)

The notes are an integral part of those consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022 (Expressed in Renminbi)

	Note	**2022 RMB'000**	2021 RMB'000
Non-current assets			
Property, plant and equipment	11	**42,237**	48,721
Intangible assets	12	**–**	287
Right-of-use assets	13	**2,237**	2,325
Deposits paid for property, plant and equipment		**–**	4,070
Investment in an associate	15	**42,799**	39,152
		87,273	94,555
Current assets			
Inventories	16	**22,889**	31,106
Trade receivables	17	**85,375**	65,883
Prepayments, deposits and other receivables	18	**5,864**	5,257
Cash and cash equivalents	19	**36,739**	19,738
		150,867	121,984
Current liabilities			
Trade and other payables	21	**64,006**	20,197
Convertible bonds	22	**14,964**	–
Bank loans	20	**17,000**	43,300
		95,970	63,497
Net current assets		**54,897**	58,487
Total assets less current liabilities		**142,170**	153,042

The notes are an integral part of those consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022 (Expressed in Renminbi)

	Note	**2022 RMB'000**	2021 RMB'000
Non-current liabilities			
Deferred tax liabilities	14(a)	**1,300**	1,300
Convertible bonds	22	**–**	13,507
		1,300	14,807
Net assets		**140,870**	138,235
Equity			
Share capital	25(b)	**11,516**	9,474
Reserves		**129,354**	128,761
Total equity		**140,870**	138,235

Approved and authorised for issue by the board of directors on 28 March 2023:

Ding Peiji
Director

Ding Lizhen
Director

The notes are an integral part of those consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022 (Expressed in Renminbi)

	Share capital RMB'000 25(b)	Share premium RMB'000 25(c)(i)	Share-based payment reserve RMB'000 25(c)(iv)	Capital reserve RMB'000 25(c)(v)	Convertible bond reserve RMB'000 25(c)(vi)	Exchange reserve RMB'000 25(c)(iii)	Statutory reserve RMB'000 25(c)(ii)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2021	7,833	272,205	9,900	145,549	4,141	11,771	58,134	(354,649)	154,884
Change in equity for the year 2021:									
Loss for the year	–	–	–	–	–	–	–	(24,989)	(24,989)
Other comprehensive income	–	–	–	–	–	542	–	–	542
Total comprehensive loss	–	–	–	–	–	542	–	(24,989)	(24,447)
Extinguishment of convertible bond (Note 22)	–	–	–	–	(2,387)	–	–	2,387	–
Issue of ordinary shares (Note 25(b))	1,641	6,236	–	–	–	–	–	–	7,877
Transaction cost attributable to placing of ordinary shares	–	(79)	–	–	–	–	–	–	(79)
Lapse of share options	–	–	(867)	–	–	–	–	867	–
Balance at 31 December 2021	9,474	278,362	9,033	145,549	1,754	12,313	58,134	(376,384)	138,235
Change in equity for the year 2022:									
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,321)**	**(10,321)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**1,112**	**–**	**–**	**1,112**
Total comprehensive loss	**–**	**–**	**–**	**–**	**–**	**1,112**	**–**	**(10,321)**	**(9,209)**
Issue of ordinary shares (Note 25(b))	**2,042**	**9,920**	**–**	**–**	**–**	**–**	**–**	**–**	**11,962**
Transaction cost attributable to placing of ordinary shares	**–**	**(118)**	**–**	**–**	**–**	**–**	**–**	**–**	**(118)**
Lapse of share options	**–**	**–**	**(4,462)**	**–**	**–**	**–**	**–**	**4,462**	**–**
Balance at 31 December 2022	**11,516**	**288,164**	**4,571**	**145,549**	**1,754**	**13,425**	**58,134**	**(382,243)**	**140,870**

The notes are an integral part of those consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2022 (Expressed in Renminbi)

	Note	2022 RMB'000	2021 RMB'000
Operating activities			
Loss before taxation		**(10,321)**	(24,989)
Adjustment for:			
Depreciation of property, plant and equipment	6(c)	**10,831**	8,181
Loss on disposal of property, plant and equipment	6(c)	**392**	–
Amortisation of intangible assets	6(c)	**287**	537
Depreciation of right-of-use assets	6(c)	**88**	88
Finance costs	6(a)	**3,974**	4,654
Interest income	5	**(153)**	(128)
Written off of property, plant and equipment	6(c)	**–**	680
Written down on inventories	6(c)	**2,633**	1,395
(Reversal of allowance)/allowance for expected credit loss on trade and other receivables, net	26(a)	**(976)**	2,352
Share of results from an associate	15	**(3,647)**	4,378
Impairment loss on investment in an associate	15	**–**	2,329
Gain on derecognition of convertible bonds	6(c)	**–**	(2,760)
Operating cash flow before movements in working capital		**3,108**	(3,283)
Decrease/(increase) in inventories		**5,584**	(9,373)
Increase in trade receivables		**(18,511)**	(9,215)
(Increase)/decrease in prepayments, deposits and other receivables		**(835)**	6,889
(Decrease)/increase in trade and other payables		**(307)**	2,651
Cash used in operations		**(10,961)**	(12,331)
Income tax		**–**	–
Net cash used in operating activities		**(10,961)**	(12,331)
Investing activities			
Payment for the purchase of property, plant and equipment		**(669)**	(2,032)
Payment for deposit of property, plant and equipment		**–**	(4,070)
Interest received	5	**153**	128
Refund from an associate		**45,993**	–
Net cash generated from/(used in) investing activities		**45,477**	(5,974)
Financing activities			
Proceeds from bank loans		**25,400**	47,200
Repayment of bank loans		**(51,700)**	(48,050)
Net proceeds from issue of new placing shares	25	**11,844**	7,798
Repayment of amount due to a director		**(719)**	(4,670)
Interest paid		**(2,517)**	(3,350)
Net cash used in financing activities		**(17,692)**	(1,072)
Net increase/(decrease) in cash and cash equivalents		**16,824**	(19,377)
Cash and cash equivalents at 1 January		**19,738**	39,169
Effect of foreign exchange rate changes		**177**	(54)
Cash and cash equivalents at 31 December	19(a)	**36,739**	19,738

The notes are an integral part of those consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business in Hong Kong is located at Room 1601, Ho King Commercial Centre, 2 -16 Fa Yuen Street, Mong Kok, Kowloon, Hong Kong.

As at 31 December 2022, the directors of the Company consider the immediate and ultimate controlling parties to be Think Wise Holdings Investment Limited and Mr. Ding Peiji respectively.

During the year, the Company and its subsidiaries (connectively the "**Group**") were principally engaged in the business of design, manufacture and sales of children apparel products. There were no significant changes in the nature of the Group's principal activities during the year.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Application of amendments to International Financial Reporting Standards ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRS issued by International Accounting Standards Board ("**IASB**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020

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

For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of amendments to International Financial Reporting Standards ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Convenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after a date to be determined.
[3] Effective for annual periods beginning on or after 1 January 2024.

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

Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable IFRSs, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by IASB. The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation of the consolidated financial statements (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The Company's functional currency is Hong Kong Dollar ("**HK$**"). The consolidated financial statements are presented in Renminbi ("**RMB**") as the principal activities of the Group is design, manufacture and sales of children apparel products are mainly conducted in the People's Republic of China ("**PRC**") and the functional currency of subsidiaries with operations in the PRC are denominated in RMB, the directors of the Company consider that it would result in a more appropriate presentation of the Group's transactions in the consolidated financial statements.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting* issued by International Accounting Standards Board in March 2018 (the "**Conceptual Framework**") except for transactions and events within the scope of IAS 37 or IFRIC 21, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below);

- assets (or disposals groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described in below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent impairment losses, if any.

Construction in progress in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, less their residual value, over their estimated useful lives, using the straight line method as follows:

– Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of competition.	
– Leasehold improvement	Over lease terms
– Machinery	10 years
– Motor vehicles	5 years
– Furniture, fixtures and equipment	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Computer software is amortised from the date they are available for use for 5–10 years.

Distribution channels recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining when measuring its fair value. It is amortised from the remaining contractual terms of the right required of distribution channels and shall not include renewal periods.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis an intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Interest in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss in the period in which the investments is acquired.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in associate (Continued)

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When a group entity transacts with its associate, profits or losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associates that are not related to the Group.

Changes in the Groups interests in an associate

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture. There is no remeasurement to fair value upon such changes in ownership interest.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets other than goodwill

(i) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– right-of-use assets;

– intangible assets;

If any such indication exists, the asset's recoverable amount is estimated.

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets other than goodwill (Continued)

(i) Impairment of other assets (Continued)

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

(ii) Equity-settled share-based payments

Share options granted to employees

The fair value of share options granted to eligible persons is recognised as an expense with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at the grant date using the binomial model, taking into account the terms and conditions upon which the options are granted. Where the eligible persons have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based payment reserve). The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulative losses).

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal and constructive) as result of a part event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risk and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A contingent liability is a present obligation arising from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Where the Group is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability and it is not recognised in the consolidated financial statements.

The Group assesses continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the consolidated financial statements in the reporting period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset and a contract liability relating to the same contract are accounted for an presented on a net basis.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Contracts with multiple performance obligation (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Sale of goods

Revenue from sales of goods is recognised at a point in time when the goods are transferred to customers upon delivery.

Government Grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange difference on monetary items receivable or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interest in an associate.

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

Exchange differences relating to the retranslation of the Group's net assets in Hong Kong dollars to the Group's presentation currency (i.e. Renminbi) are recognised directly in other comprehensive income and accumulated in exchange reserve. Such exchange differences accumulated in the exchange reserve are not reclassified to profit or loss subsequently.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualify assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are expensed in the period in which they are incurred.

Lease

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application of IFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, lease with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for a lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease (Continued)

The Group as lessee *(Continued)*

Right-of-use-assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from the commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease (Continued)

The Group as lessee *(Continued)*

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-use assets.

Lease liabilities

At the commencement date of lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group use the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any incentive receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease (Continued)

The Group as lessee *(Continued)*

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasure lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/excepted payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying asset; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease (Continued)

***The Group as lessee** (Continued)*

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

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

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risk and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease (Continued)

The Group as a lessor (Continued)

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentive provided through forgiveness or reduction of rentals.

(i) Operating leases

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

For rent concession under which the Group legally releases the lessee from its obligation to make specifically identified lease payment, of which some of these lease payments are contractually due but not paid and some of them are not yet contractually due, the Group accounts for the portions which have been recognised as operating lease receivables (i.e. the lease payments which are contractually due but not paid) by applying the ECL and derecognition requirements under IFRS 9 and applies lease modification requirements for the forgiven lease payments that the Group has not recognised (i.e. the lease payments which are not yet contractually due) as at the effective date of modification.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in two businesses: 1) manufacture and wholesales of children's apparel products and 2) retail outlets of children's apparel products, in the PRC.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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

Interest and dividend income which are derived from the Group's ordinary course of business are presented as other revenue.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("**ECL**") on financial assets (including trade receivables, deposit paid, other receivables and cash and cash equivalents) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

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

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets (Continued)

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 1 year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience and forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flow used for determining the ECL is consistent with cash flow used in measuring the lease receivable in accordance with IFRS 16.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets (Continued)

Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognised an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability for amount it may have to pay. If the Group retains substantially all the risk and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Perpetual instruments, which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities

Financial liabilities at amortised cost

Financial liabilities including bank loans, convertible bonds, trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Modification of financial liabilities

When the contractual terms of a financial liability are modified, the Group assess whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such modification of terms is accounted for as an extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible bonds

The component parts of the convertible bonds are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated by measuring the fair value of similar liability that does no have an associated equity component.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Estimated impairment of property, plant and equipment, right-of-use assets and intangible asset

Property, plant and equipment, right-of-use assets and intangible asset are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amount.

As at 31 December 2022, the carrying amounts of property, plant and equipment, right-of-use assets and intangible assets are approximately RMB42,237,000, RMB2,237,000 and RMBNil (2021: approximately RMB48,721,000, RMB2,325,000 and RMB287,000) respectively. The details of impairment assessment on property, plant and equipment, right-of-use assets and intangible asset are set out in Notes 11, 13 and 12.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(b) Allowance for ECL on trade receivables

When ECL assessment is performed using a provision matrix. Details on how ECL were measured should be consistent to the internal credit risk management of the Group are disclosed in Note 26.

In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on ageing of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. Due to eased financial uncertainty triggered by the Covid-19 pandemic, the Group has decreased the expected loss rates in the current year as there is lower risk that a moderated pandemic could led to decreased credit default rates. The information about the ECL and the Group's trade receivables is disclosed in Note 26.

The loss allowances for financial assets at amortised cost are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's financial assets at amortised cost are disclosed in Note 26(a).

4. TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are design, manufacture and sales of children's apparel products. Turnover represents the sales value of goods sold less returns, discounts and value added taxes.

Segment revenue and results:

The following is an analysis of the Group's revenue and results by reportable segments.

	Wholesalers		Retail outlets		Total	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Reportable segment revenue						
– Revenue from external customer	**142,415**	130,054	**–**	6,631	**142,415**	136,685
Segment results	**(6,013)**	(17,386)	**–**	5,868	**(6,013)**	(11,518)
Written down on inventories	**(2,633)**	(1,395)	**–**	–	**(2,633)**	(1,395)
Reversal of allowance/(allowance for) expected credit loss on trade and other receivables, net	**976**	(2,298)	**–**	(54)	**976**	(2,352)
Other revenue					**1,314**	1,038
Share of results from an associate					**3,647**	(4,378)
Impairment loss on investment in an associate					**–**	(2,329)
Central administration costs					**(3,638)**	(2,161)
Gain on derecognition of convertible bonds					**–**	2,760
Finance costs					**(3,974)**	(4,654)
Loss before taxation					**(10,321)**	(24,989)

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Segment revenue and results: (Continued)

All of the segment revenue reported above are generated from external customers. Revenue from contracts with customers are recognised at a point in time.

The accounting policies of the operating segments are the same as the Group's accounting policies to the consolidated financial statements. Segment results represent the loss recorded by each segment without allocation of other revenue, share of results from an associate, impairment loss on investment in an associate, gain on derecognition of convertible bonds, finance costs and central administrative costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

The segment was presented based on the sales channel of children's apparel products.

Segment assets and liabilities:

	Wholesalers		Retail outlets		Total	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Segment assets	**187,754**	177,230	**–**	2	**187,754**	177,232
Unallocated assets					**50,386**	39,307
Total assets					**238,140**	216,539
Segment liabilities	**79,419**	60,538	**–**	85	**79,419**	60,623
Unallocated liabilities					**17,851**	17,681
Total liabilities					**97,270**	78,304

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

– all assets are allocated to reportable segments other than investment in an associate, certain other prepayments and receivables and certain cash and cash equivalents; and

– all liabilities are allocated to reportable segments other than deferred tax liabilities, convertible bonds and certain accrued changes and other payables.

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Other segment information:

	Wholesalers		Retail outlets		Total	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Capital expenditure*	**4,739**	2,032	**–**	–	**4,739**	2,032
Depreciation of property, plant and equipment	**10,831**	7,969	**–**	212	**10,831**	8,181
Depreciation of right-of-use assets	**88**	88	**–**	–	**88**	88
Written off of property, plant and equipment	**–**	245	**–**	435	**–**	680
Amortisation of intangible assets	**287**	537	**–**	–	**287**	537
Written down on inventories	**2,633**	1,395	**–**	–	**2,633**	1,395
(Reversal of allowance)/allowance for expected credit loss on trade and other receivables, net	**(976)**	2,298	**–**	54	**(976)**	2,352

* Capital expenditure consists of additions to property, plant and equipment.

Geographical information

All the Group's revenue from external customers and non-current assets are based in Mainland China.

Information about major customers:

Revenue from customers which individually contributed over 10% of the Group's revenue for the years ended 31 December 2022 and 2021 is as follows:

	2022 RMB'000	2021 RMB'000
Customer A	**N/A***	28,687
Customer B	**N/A***	24,859
Customer C	**24,341**	21,096
Customer D	**29,198**	N/A*
Customer E	**27,758**	N/A*
Customer F	**16,843**	N/A*

* The corresponding revenue does not contribute over 10% of the Group's revenue for the respective year

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5. OTHER REVENUE

	2022 RMB'000	2021 RMB'000
Interest income	**153**	128
Rental income	**1,161**	910
	1,314	1,038

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

		2022 RMB'000	2021 RMB'000
(a)	**Finance costs:**		
	Interest on bank loans	**1,255**	2,072
	Interest on convertible bonds	**2,719**	2,582
		3,974	4,654
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**2,699**	2,538
	Salaries, wages and other benefits	**23,331**	26,607
		26,030	29,145
(c)	**Other items:**		
	Amortisation of intangible assets (Note 12)	**287**	537
	Depreciation of property, plant and equipment (Note 11)	**10,831**	8,181
	Depreciation of right-of-use assets (Note 13)	**88**	88
	Auditors' remuneration		
	– Audit services	**773**	747
	Written off of property, plant and equipment	**–**	680
	Written down on inventories	**2,633**	1,395
	(Reversal of allowance)/allowance for expected credit loss on trade and other receivables, net	**(976)**	2,352
	Design and development expenses	**4,552**	7,210
	Cost of inventories sold#	**115,212**	105,211
	Gain on derecognition of convertible bonds	**–**	(2,760)
	Loss on disposal of property, plant and equipment	**392**	–

Cost of inventories for the year ended 31 December 2022 includes approximately RMB11,775,000 (2021: approximately RMB12,095,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately in Notes 6(b) and (c) above for each of these types of expenses.

7. TAXATION

(a) Income tax expenses in the consolidated statement of profit or loss and other comprehensive income represents:

	2022 RMB'000	2021 RMB'000
Current tax		
– PRC corporate income tax	–	–
Deferred tax		
– Origination of temporary differences (Note 14(a))	–	–
	–	–

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2022 RMB'000	2021 RMB'000
Loss before taxation	**(10,321)**	(24,989)
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	**(1,002)**	(5,879)
Tax effect of share results of an associate	**(912)**	1,095
Tax effect of income not taxable for tax purpose	**(194)**	(455)
Tax effect of expenses not deductible for tax purpose	**415**	75
Tax effect of unused tax losses not recognised	**1,693**	5,164
Tax expense	–	–

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands or BVI.

(ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax for both years.

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

(iii) The applicable income tax rate for all of the Group's subsidiaries in PRC is 25%.

8. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2022

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement plans RMB'000	Discretionary bonuses RMB'000	Sub-total RMB'000	Equity-settled share-based payments (note a) RMB'000	Total RMB'000
Executive directors							
Mr. Ding Peiji *(Chairman)*	–	678	10	–	688	–	688
Mr. Ding Peiyuan	–	582	10	–	592	–	592
Ms. Ding Lizhen	–	582	10	–	592	–	592
Mr. Chan Yi Hsiung (note b)	–	220	–	–	220	–	220
Sub-total	–	2,062	30	–	2,092	–	2,092
Independent non-executive directors							
Mr. Hung Cho Sing	103	–	–	–	103	–	103
Mr. Chan Wai Wong (note c)	86	–	–	–	86	–	86
Mr. Wu Shiming (note c)	52	–	–	–	52	–	52
Mr. Ng Shing Kin (note d)	52	–	–	–	52	–	52
Mr. Chen Jun (note d)	17	–	–	–	17	–	17
Sub-total	310	–	–	–	310	–	310
Total	310	2,062	30	–	2,402	–	2,402

8. DIRECTORS' REMUNERATION (Continued)

Year ended 31 December 2021

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement plans RMB'000	Discretionary bonuses RMB'000	Sub-total RMB'000	Equity-settled share-based payments (note a) RMB'000	Total RMB'000
Executive directors							
Mr. Ding Peiji *(Chairman)*	–	708	10	–	718	–	718
Mr. Ding Peiyuan	–	612	10	–	622	–	622
Ms. Ding Lizhen	–	612	10	–	622	–	622
Sub-total	–	1,932	30	–	1,962	–	1,962
Independent non-executive directors							
Mr. Hung Cho Sing	100	–	–	–	100	–	100
Mr. Chan Wai Wong	100	–	–	–	100	–	100
Mr. Wu Shiming	100	–	–	–	100	–	100
Sub-total	300	–	–	–	300	–	300
Total	300	1,932	30	–	2,262	–	2,262

Notes:

(a) These represent the estimated value of equity-settled-share-based payments granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2 and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and Note 24.

(b) Mr. Chan Yi Hsiung was appointed as executive director on 22 July 2022.

(c) Mr. Chan Wai Wong and Mr. Wu Shiming resigned as independent non-executive directors on 31 October 2022 and 28 June 2022 respectively.

(d) Mr. Ng Shing Kin and Mr. Chen Jun were appointed as independent non-executive directors on 5 July 2022 and 31 October 2022 respectively.

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in Note 9 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2021: three) are directors whose remuneration is disclosed in Note 8 above. The emoluments in respect of the remaining two individuals (2021: two) who are neither a director nor chief executive of the Company are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other emoluments	588	299
Contributions to defined contribution retirement plans	24	54
	612	353

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2022	2021
Nil to HK$1,000,000	2	2

The emoluments paid or payable to members of senior management (excluding the directors as disclosed in Note 8) are within the following bands:

	2022	2021
Nil to HK$1,000,000	2	2

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year of approximately RMB10,321,000 (2021: loss of approximately RMB24,989,000) and the weighted average of 133,220,000 ordinary shares (2021: 112,796,000 ordinary shares).

(b) Diluted loss per share

The effect of the Company's share options and convertible bonds was anti-dilutive for the year ended 31 December 2022 and 2021, and therefore, diluted loss per share is the same as the basic loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:							
At 1 January 2021	98,580	675	14,433	4,465	7,214	–	125,367
Additions	–	–	232	–	–	1,800	2,032
Written off	–	(675)	–	(831)	(547)	–	(2,053)
At 31 December 2021 and 1 January 2022	98,580	–	14,665	3,634	6,667	1,800	125,346
Additions	–	–	2,743	1,130	866	–	4,739
Disposal	–	–	–	(2,100)	–	–	(2,100)
Transfer	1,800	–	–	–	–	(1,800)	–
At 31 December 2022	**100,380**	**–**	**17,408**	**2,664**	**7,533**	**–**	**127,985**
Accumulated depreciation:							
At 1 January 2021	57,467	101	6,193	3,558	2,498	–	69,817
Charge for the year	5,071	208	2,122	173	607	–	8,181
Written off	–	(309)	–	(585)	(479)	–	(1,373)
At 31 December 2021 and 1 January 2022	62,538	–	8,315	3,146	2,626	–	76,625
Charge for the year	5,161	–	3,876	805	989	–	10,831
Disposal	–	–	–	(1,708)	–	–	(1,708)
At 31 December 2022	**67,699**	**–**	**12,191**	**2,243**	**3,615**	**–**	**85,748**
Net book value:							
At 31 December 2022	**32,681**	**–**	**5,217**	**421**	**3,918**	**–**	**42,237**
At 31 December 2021	36,042	–	6,350	488	4,041	1,800	48,721

(a) All property, plant and equipment owned by the Group are located in the PRC.

(b) Buildings with net book value of approximately RMB8,751,000 as at 31 December 2022 (2021: approximately RMB26,150,000) were pledged as collateral for the Group's bank loans (Note 20).

The recoverable amount of property, plant and equipment have been determined based on fair value less cost to sell approach which performed by independent professional valuers. Based on the assessment, the recoverable amount of property, plant and equipment is higher than the carrying value of property, plant and equipment, the management of the Group determines that there is no impairment on property, plant and equipment.

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12. INTANGIBLE ASSETS

	Computed software RMB'000	Distribution channels RMB'000	Total RMB'000
Cost:			
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	28,442	69,300	97,742
Accumulated amortisation and impairment:			
At 1 January 2021	27,618	69,300	96,918
Charge for the year	537	–	537
At 31 December 2021 and 1 January 2022	28,155	69,300	97,455
Charge for the year	287	–	287
At 31 December 2022	28,442	69,300	97,742
Net book value:			
At 31 December 2022	**–**	**–**	**–**
At 31 December 2021	287	–	287

The amortisation for the year is included in selling and distribution expenses and administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

The following useful lives are used in the calculation of amortisation:

Computer software	5-10 years
Distribution channels	2-4¼ years

Distribution channels

Red Kids (China) Limited ("**Red Kids (China)**"), an indirectly wholly-owned subsidiary of the Company, and independent third parties entered into distributor contracts. According to the distributor contracts, Red Kids (China) granted the independent third parties the exclusive distributorship of the "Redkids" brand in the authorized geographic area (the "**Distributors**"). The Distributors have the rights to open new retail stores in the authorised areas to sell "Redkids" products manufactured by the Red Kids (China).

13. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000
Cost:	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	4,206
Accumulated depreciation:	
At 1 January 2021	1,793
Charge for the year	88
At 31 December 2021 and 1 January 2022	1,881
Charge for the year	88
At 31 December 2022	1,969
Net book value:	
At 31 December 2022	**2,237**
At 31 December 2021	2,325

Right-of-use assets with carrying amounts of approximately RMB2,237,000 (2021: approximately RMB2,325,000) as at 31 December 2022 were pledged as collateral for the Group's bank loans (Note 20). Leasehold lands represent the costs of land use rights in respect of certain leasehold lands located in PRC, which are held under a medium lease form.

The recoverable amount of right-of use assets have been determined based on fair less cost to sell approach which performed by independent professional valuers. Based on the assessment, the recoverable amount of right-of-use assets is higher than the carrying value of right-of-use assets, the management of the Group determines that there is no impairment on right-of-use assets.

14. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Deferred tax assets and liabilities recognised:

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

	Dividend withholding tax RMB'000	**Total** RMB'000
At 1 January 2021	(1,300)	(1,300)
Credited to profit or loss (Note 7(a))	–	–
At 31 December 2021 and 1 January 2022	(1,300)	(1,300)
Credited to profit or loss (Note 7(a))	–	–
At 31 December 2022	**(1,300)**	**(1,300)**

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2, the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB507,139,000 (2021: approximately RMB500,368,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Cumulative tax losses related to the Group's PRC subsidiaries of approximately RMB507,061,000 (2021: approximately RMB498,150,000) will expire within 5 years under current tax legislation.

15. INVESTMENT IN AN ASSOCIATE/AMOUNT DUE TO AN ASSOCIATE

	2022 RMB'000	2021 RMB'000
Acquisition of interests in an associate	45,000	45,000
Share of post-acquisition results, net of dividend received	128	(3,519)
Impairment losses	(2,329)	(2,329)
At end of the year	42,799	39,152

The movement of investment in an associate was as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	39,152	45,859
Share of profits/(losses)	3,647	(4,378)
Impairment loss	–	(2,329)
At 31 December	42,799	39,152

Summarised statement of financial position of the associate:

	2022 RMB'000	2021 RMB'000
Non-current assets	–	403
Current assets	100,284	91,894
Non-current liabilities	–	–
Current liabilities	–	(117)
Net assets of the associate	100,284	92,180

Summarised statement of profit or loss and other comprehensive income of the associate:

	2022 RMB'000	2021 RMB'000
Revenue	12,727	6,898
Expenses	(4,623)	(16,627)
Profit/(loss) for the year	8,104	(9,729)
Total comprehensive income/(loss) for the year attributable to the associate	8,104	(9,729)

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For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

15. INVESTMENT IN AN ASSOCIATE/AMOUNT DUE TO AN ASSOCIATE (Continued)

Reconciled to the Group's interests in the associate:

	2022 RMB'000	2021 RMB'000
Gross amounts of net assets of the associate	**100,284**	92,180
Group's effective interest	**45%**	45%
Group's share of net assets of the associate	**45,128**	41,481
Less: impairment loss	**(2,329)**	(2,329)
Carrying amount of the Group's interest in associate	**42,799**	39,152

As at 31 December 2022, the bank and cash balances of the Group's associate in the PRC denominated in RMB amount to approximately RMBNil (2021: RMB2,510,000) which is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange control imposed by the PRC government.

Details of the Group's investment in an associate, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held 2022 direct	2022 indirect	2021 direct	2021 indirect	Particulars of issued paid-up capital	Principal activities
廈門兆年商業保理有限公司	PRC	Limited liability	**–**	**45%**	–	45%	RMB100,000,000	Engage in commercial factoring business and provide credit facility, tender agency, liquidation and settlement services

15. INVESTMENT IN AN ASSOCIATE/AMOUNT DUE TO AN ASSOCIATE (Continued)

Impairment assessment on the investment in an associate

Particulars regarding impairment testing on the investment in an associate are disclosed below: The recoverable amount has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and pre-tax discount rate of 11.89%. Cash flows beyond the 5-year period are extrapolated using a zero-growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue, gross margin and expense, such estimation is based on the past performance and management's expectations for the market development. During the year ended 31 December 2021, the directors considered that the operation was not good for development under the current environment and regulations for this specific industry in the PRC and decided to phase out the business. The directors have consequently determined impairment of investment in an associate based on the valuation report issued by an independent professional valuer. The carrying amount of the CGU exceeds its recoverable amount and an impairment loss of approximately RMB2,329,000 was provided for the year ended 31 December 2021.

During the year ended 31 December 2022, the associate refunded the cost of investment to the Group due to the application of the de-registration. Up to date of this report, the de-registration is still-in-progress. Therefore, the recoverable amount of the interest in an associate exceeds its carrying amount and no impairment loss was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2022 **RMB'000**	2021 RMB'000
Raw materials	**1,138**	1,272
Work in progress	**52**	78
Finished goods	**21,699**	29,756
	22,889	31,106

17. TRADE RECEIVABLES

	2022 **RMB'000**	2021 RMB'000
Trade receivables	**97,335**	78,824
Less: Allowance for expected credit loss	**(11,960)**	(12,941)
	85,375	65,883

As at 1 January 2021, trade receivables from contracts with customers (net of allowance for expected credit loss) amounted to RMB59,020,000.

Normally, the Group does not obtain collateral from customers. Credit evaluations are performed by the senior management on all customers with credit sales. In general, the credit period granted to customers is 30 to 120 days (2021: 30 to 120 days).

As of the end of the reporting period, the ageing analysis of trade receivables of the Group based on invoice date and net of allowance for expected credit losses, is as below:

	2022 **RMB'000**	2021 RMB'000
Within 90 days	**44,974**	46,248
90-120 days	**19,011**	5,735
After 120 days but within 180 days	**21,390**	7,305
After 180 days but within 1 year	**–**	6,595
	85,375	65,883

Details of assessment for expected credit losses of trade receivables for the year ended 31 December 2022 and 2021 are set out in Note 26(a).

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022	2021
	RMB'000	RMB'000
Other receivables	**584**	920
Less: Allowance for expected credit loss	**(5)**	–
	579	920
Prepayments to suppliers	**5,285**	4,337
	5,864	5,257

Details of assessment for expected credit losses of other receivables for the year ended 31 December 2022 and 2021 are set out in Note 26(a).

19. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2022	2021
	RMB'000	RMB'000
Cash at bank and on hand	**36,739**	19,738

At 31 December 2022, cash and cash equivalents amount of approximately RMB29,313,000 (2021: approximately RMB19,544,000) were placed with banks in PRC. Remittance of funds out of PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

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For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

19. CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of liabilities arising from financing activities:

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

	Bank loans RMB'000 (Note 20)	Convertible bonds RMB'000 (Note 22)	Amount due to a director RMB'000 (Note 21)	Total RMB'000
At 1 January 2021	44,150	14,963	5,389	64,502
Change from financing cash flow, net	(2,922)	(1,278)	(4,670)	(8,870)
Others:				
Interest charged, net	2,072	2,582	–	4,654
Derecognition of the Convertible Bonds 2019	–	(15,226)	–	(15,226)
Recognition of the Convertible Bonds 2021	–	12,466	–	12,466
At 31 December 2021 and 1 January 2022	43,300	13,507	719	57,526
Change from financing cash flow, net	(27,555)	(1,262)	(719)	(29,536)
Other:				
Interest charged, net	1,255	2,719	–	3,974
At 31 December 2022	**17,000**	**14,964**	**–**	**31,964**

20. BANK LOANS

As of the end of the reporting period, the bank loans of the Group were repayable within one year or on demand as follows:

	2022 RMB'000	2021 RMB'000
Bank loans		
– secured	**17,000**	43,300

20. BANK LOANS (Continued)

Assets of the Group pledged to secure the bank loans comprise:

	2022 RMB'000	2021 RMB'000
Buildings (Note 11)	8,751	26,150
Right-of-use assets (Note 13)	2,237	2,325
	10,988	28,475

Bank loans of approximately RMB17,000,000 as at 31 December 2022 (2021: approximately RMB43,300,000) are secured by right-of-use assets and buildings of net book value of approximately RMB2,237,000 (2021:RMB2,325,000) and RMB8,751,000 (2021: RMB26,150,000) respectively and guaranteed by the directors of the Company and an independent third party.

The bank loans comprise:

	2022 RMB'000	2021 RMB'000
Fixed-rate bank loans	17,000	43,300

The effective interest rates per annum at the respective reporting dates, are as follows:

	2022	2021
Fixed-rate bank loans	4.00%	4.78-5.52%

At the end of the reporting period, bank loans were denominated in the following currencies:

	2022 RMB'000	2021 RMB'000
RMB	17,000	43,300

21. TRADE AND OTHER PAYABLES

	2022 **RMB'000**	2021 RMB'000
Trade payables *(note a)*	**3,837**	4,158
Other payables and accruals *(note b)*	**60,169**	15,320
Amount due to a director *(note c)*	**–**	719
	64,006	20,197

note:

(a) In general, the credit period granted by suppliers is 30 days (2021: 30 days).

Set out below is an ageing analysis of the trade payables at the end of the reporting period based on relevant invoice dates:

	2022 **RMB'000**	2021 RMB'000
Within 3 months	**3,837**	4,158

(b) An amount of RMB 45,933,000 is the cost of investment refunded from the associate due to de-registration still-in-progress upto the date of these consolidated financial statements.

(c) The amount due to a director, Mr. Ding Peiji, is unsecured, interest free and repayable on demand.

For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

22. CONVERTIBLE BONDS

On 23 June 2017, the Company issued convertible bonds with an aggregate principal amount of RMB34,393,044 (equivalent to HK$39,552,000) which borne an interest rate of 4% per annum ("**Convertible Bonds 2017**") as a part of consideration for acquisition of distribution channel. The Convertible Bonds 2017 entitled the holder to convert them into ordinary shares at a conversion price of HK$0.24 per ordinary share, at any time.

On 23 June 2019, the Company renewed Convertible Bonds 2017 with an aggregate principal amount of RMB15,763,000 (equivalent to HK$18,128,000) which borne an interest rate of 8% per annum ("**Convertible Bonds 2019**"). The Convertible Bonds 2019 entitled the holder to convert them into ordinary shares at a conversion price of HK$1.10 per ordinary share, at any time from 23 June 2019 to 23 June 2021.

The Convertible Bonds 2019 contain two components: liability and equity components. The equity element is presented in equity heading "Convertible bonds reserve". The effective interest rate of the liability component on the initial recognition was 19.26% per annum.

The Convertible Bonds 2019 information are presented as follows:

Principal amount:	RMB15,763,000 (Equivalent to HK$18,128,000)
Interest:	8% p.a. payable semi-annually
Issue date:	23 June 2019
Maturity date:	23 June 2021
Conversion price per share:	HK$1.10 (Restated)
Discount rate:	20.49%

On 1 February 2021, the Company renewed the Convertible Bonds 2019 with an aggregate principal amount of approximately RMB15,763,000 (equivalent to HK$18,128,000) which borne an interest rate of 8% per annum ("**Convertible Bonds 2021**"). The Convertible Bonds 2021 entitled the holder to convert them into ordinary shares at a conversion price of HK$1.10 per ordinary share, at any time 1 February 2021 to 23 June 2023. At the date of modification, the carrying amounts of the liability components and the equity components of the Convertible Bonds 2019 immediately before the modification were approximately RMB15,226,000 and RMB4,141,000, respectively. According to a valuation report issued by an independent professional valuer not connected with the Group, the fair value of the new liability component and the equity component of the Convertible Bonds 2019 immediately the modification are approximately RMB12,466,000 and RMB1,754,000 as at the date of valuation. Upon modification, the original Convertible Bonds 2019 was extinguished and a gain of approximately RMB2,760,000 arising from the fair value difference of the liability portion was recognised in profit or loss during the year ended 31 December 2021 and an aggregate amount of RMB2,387,000 from the convertible bond reserve was transferred to the accumulated loss. Save as disclosed above, all other principal terms and conditions of the convertible bond subscription agreement and the convertible bonds as amended by the amendment deed remain unchanged.

Convertible Bonds 2021 contain two components: liability and equity components. The equity element is presented in equity heading "Convertible bond reserve". The effective interest rate of the liability component on the initial recognition was 19.21% per annum.

22. CONVERTIBLE BONDS (Continued)

The Convertible Bonds 2021 information are presented as follows:

Principal amount:	RMB15,763,000 (Equivalent to HK$18,128,000)
Interest:	8% p.a. payable semi-annually
Issue date:	1 February 2021
Maturity date:	23 June 2023
Conversion price per share	HK$1.10
Discount rate:	20.49%

The Convertible Bonds 2019 and Convertible Bonds 2021 recognised in the consolidated statement of financial position were calculated as follows:

	Convertible Bonds 2019 RMB'000	**Convertible Bonds 2021** RMB'000
Liability component	12,839	12,466
Equity component	4,141	1,754
Fair value on issue date	16,980	14,220
At 1 January 2021	14,963	–
Interest charged	467	2,115
Interest payable/paid	(204)	(1,074)
Derecognition of the Convertible Bonds 2019	(15,226)	–
Liability component at date of modification	–	12,466
At 31 December 2021 and 1 January 2022	–	13,507
Interest charged	–	2,719
Interest payable/paid	–	(1,262)
At 31 December 2022	**–**	**14,964**

23. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "**Schemes**") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 12% to 21% (2021: 12% to 21%) of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group does not have any material obligation for the payment of retirement benefits except for those schemes described above.

As at 31 December 2022 and 2021, the Group has no forfeited contributions available to reduce the existing level of contributions.

24. SHARE-BASED PAYMENTS

Pre-IPO Share Option Scheme

Pursuant to the shareholders' resolutions passed on 27 December 2013, the Company adopted a pre-IPO share option scheme (the "**Pre-IPO Option Scheme**") whereby three directors and eighteen employees of the Group (the "**Grantees**") were given the rights to subscribe for the shares of the Company. The subscription price per share pursuant to the Pre-IPO Option Scheme is equal to 80% of the final offer price of the IPO.

The Pre-IPO Option Scheme was offered to and accepted by the Grantees on 27 December 2013, which is determined to be the service commencement date, and the shareholders' approval on the Pre-IPO Option Scheme became legally enforceable on 15 January 2014, which is the date of listing of the Company's share on the Stock Exchange ("**Listing Date**") and also the grant date of the Pre-IPO options.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

24. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme

The Company adopted the Share Option Scheme on 27 December 2013 for the purpose of rewarding certain eligible persons for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on the Listing Date.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors or proposed director (including non-executive director and independent non-executive directors) of the Company or any of its subsidiaries; any direct or indirect Shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date, i.e. 80,000,000 shares of the Company. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

The maximum number of shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

24. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, where any grant of options or awards to an independent non-executive director or a substantial shareholder of the Company, or any of their respective associates, would result in the shares issued and to be issued in respect of all options and awards granted (excluding any options and awards lapsed in accordance with the terms of the scheme) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of shares in issue, such further grant of options or awards must be approved by shareholders of the Company in general meeting in the manner set out in Rule 17.04(4) of the Listing Rules.

The exercise period of the share options granted is determinable by the directors, which period may commence on the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date.

The exercise price share based of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

On 2 November 2018, the Company has granted, a total of 8,000,000 share options to certain directors, employees and others under Share Option Scheme.

For the year ended 31 December 2022 and 2021, no equity-settled share-based payment was recognised to consolidated statement of profit or loss and other comprehensive income.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

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24. SHARE-BASED PAYMENTS (Continued)

(a) The terms and conditions of the grants are as follows:

(i) Pre-IPO Option Scheme

Date of grant		Number of options granted	Vesting conditions	Contractual life of options
Options granted to directors:				
15 January 2014	Batch 1	72,000	1 year after the Listing Date	8 years
15 January 2014	Batch 2	72,000	2 years after the Listing Date	8 years
15 January 2014	Batch 3	96,000	3 years after the Listing Date	8 years
Options granted to employees:				
15 January 2014	Batch 1	138,000	1 year after the Listing Date	8 years
15 January 2014	Batch 2	138,000	2 years after the Listing Date	8 years
15 January 2014	Batch 3	184,000	3 years after the Listing Date	8 years
		700,000		

(ii) Share Option Scheme

Date of grant		Number of options granted	Vesting conditions	Contractual life of options
Options granted to directors:				
2 November 2018	Batch 1	888,000	1 year after the grant date	10 years
2 November 2018	Batch 2	1,332,000	2 years after the grant date	10 years
Options granted to employees and others:				
2 November 2018	Batch 1	2,312,000	1 year after the grant date	10 years
2 November 2018	Batch 2	3,468,000	2 years after the grant date	10 years
		8,000,000		

24. SHARE-BASED PAYMENTS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

(i) Pre-IPO Option Scheme

	Year ended 31 December 2022		Year ended 31 December 2021	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	**HK$18.24**	**290**	HK$18.24	330
Lapsed during the year	**HK$18.24**	**290**	HK$18.24	40
Outstanding at the end of the year	**–**	**–**	HK$18.24	290
Exercisable at the end of the year	**–**	**–**	HK$18.24	290

The Pre-IPO option lapsed during the year ended 31 December 2022. As at 31 December 2021, the Pre-IPO option had an exercise price of HK$18.24 and a weighted average remaining contractual life of Batch 1-3 are 1 year.

(ii) Share Option Scheme

	Year ended 31 December 2022		Year ended 31 December 2021	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning and end of the year	**HK$1.07**	**8,000**	HK$1.07	8,000
Exercisable at the end of the year	**HK$1.07**	**8,000**	HK$1.07	8,000

The share options outstanding as at 31 December 2022 had an exercise price of HK$1.07 (2021: HK$1.07) and a weighted average remaining contractual life is 6 years (2021: 7 years).

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24. SHARE-BASED PAYMENTS (Continued)

(c) Fair value of share options and assumptions

The fair value of services rendered by the directors and employees in return for the share options granted is measured by reference to the fair value of the share options granted. Set out below are the estimate of such fair value and the related assumptions based on the binomial model:

(i) Pre-IPO Option Scheme

	Batch 1	Batch 2	Batch 3
Fair value at measurement date (HK$)	10.6100	11.3590	11.9500
Exercise price (HK$)	18.24	18.24	18.24
Expected volatility	43.488%	43.488%	43.488%
Contractual option life	8	8	8
Expected dividends	2.50%	2.50%	2.50%
Risk-free rate	1.87%	1.87%	1.87%

(ii) Share Option Scheme

	Batch 1	Batch 2
Fair value at measurement date (HK$)	0.6441	0.6523
Exercise price (HK$)	1.07	1.07
Expected volatility	56.512%	56.512%
Contractual option life	10	10
Expected dividends	0.00%	0.00%
Risk-free rate	2.44%	2.44%

The expected volatility is based on the historic volatility of comparable companies. Expected dividends are based on management's assumption. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service condition. These conditions have not been taken account in the fair value measurements at the grant dates. There were no market conditions associated with the grants of the share options.

As at 31 December 2022, the Company had 8,000,000 (2021: 8,290,000) share options outstanding under the share option schemes, which represented approximately 5.6% (2021: 7.0%) of the Company's shares in issue as of that date.

24. SHARE-BASED PAYMENTS (Continued)

(d) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise Price	2022 Number	2021 Number
15 January 2015 to 14 January 2022	HK$18.24	–	81,000
15 January 2016 to 14 January 2022	HK$18.24	–	80,000
15 January 2017 to 14 January 2022	HK$18.24	–	129,000
2 November 2018 to 1 November 2028	HK$1.07	**8,000,000**	8,000,000
		8,000,000	8,290,000

25. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

No dividend was paid or proposed during the year ended 31 December 2022 and 2021, nor has any dividend been proposed since the end of the reporting period. The rates of dividend and the number of shares ranking for dividend are not presented, as such information is not considered meaningful for the purpose of these consolidated financial statements.

(b) Share capital

(i) Authorised and issued share capital

	2022			2021		
	No. of share	HK$'000	RMB'000	No. of share	HK$'000	RMB'000
Authorised:						
At 1 January (ordinary share of HK$0.1 (2021: HK$0.01 each)	**1,000,000,000**	**100,000**	**79,380**	10,000,000,000	100,000	79,380
Share consolidation (note i)	–	–	–	(9,000,000,000)	–	–
At 31 December (ordinary share of HK$0.1 each)	**1,000,000,000**	**100,000**	**79,380**	1,000,000,000	100,000	79,380
Issued and fully paid:						
At 1 January	**118,080,000**	**11,808**	**9,474**	984,000,000	9,840	7,833
Share consolidation (note i)	–	–	–	(885,600,000)	–	–
Issue of share upon placing (note ii)	**23,616,000**	**2,362**	**2,042**	19,680,000	1,968	1,641
At 31 December	**141,696,000**	**14,170**	**11,516**	118,080,000	11,808	9,474

25. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

(i) Authorised and issued share capital (Continued)

note:

(i) Upon the share consolidation became effective on 16 March 2021, the authorised share capital of the Company decrease from 10,000,000,000 at HK0.01 each to 1,000,000,000 at HK$0.1 each and the issued share capital of the Company decreased from 984,000,000 ordinary shares (the "**Existing Shares**") to 98,400,000 consolidated shares on the basis that every ten Existing Shares in the share capital of the Company to be consolidated into one consolidated share by the deduction of 885,600,000 shares. Details of the share consolidation were set out in the Company's announcement dated 1 February 2021.

(ii) On 9 April 2021, the Company placed 19,680,000 placing shares at the placing price of HK$0.48 per placing share. The net proceeds of approximately RMB7,798,000, after deducting the transaction costs of approximately RMB79,000, are intended to be used for general working capital of the Group. Details of the placing of shares were set out in the Company's announcements dated 9 April 2021 and 23 February 2021.

On 12 May 2022, the Company placed 23,616,000 placing shares at the placing price of HK$0.58 per placing share. The net proceeds of approximately RMB11,844,000, after deducting the transaction costs of approximately RMB118,000, are intended to be used for general working capital of the Group. Details of the placing of shares were set out in the Company's announcements dated 12 May 2022 and 22 April 2022.

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

25. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Nature and purpose of reserve

(i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the Company's share premium account are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed. The Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of profits to parent companies.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(iii) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of operations outside PRC which are dealt with in accordance with the accounting policies as set out in Note 2.

(iv) Share-based payment reserve

Share-based payment reserve represents the fair value of services rendered by employees of the Group to whom the Company has granted share options, and the fair value of services provided by parties other than employees to the Group and the services were settled by equity instrument of the Company. The relevant services are recognised in accordance with IFRS 2, Share-based payment.

(v) Capital reserve

Think Wise Holdings Investment Limited ("**Think Wise**"), the immediate controlling party of the Group waived an outstanding amount of HK$184,239,688 (equivalent to RMB145,549,000) due from Red Kids Group (Hong Kong) Limited, a subsidiary of the Group in January 2014. This deed of waiver has been reflected as a reduction of amount due to Think Wise and a corresponding increase in the capital reserve of the Group.

(vi) Convertible bond reserve

Convertible bond reserve represents equity portion of Convertible Bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

25. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Distributable reserve

The distributable reserve of the Company as at 31 December 2022 was RMB88,108,000 (2021: RMB80,370,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there are adequate working capital to service its debt obligations. The Group's debt to capital ratio, being the Group's interest-bearing bank loans and convertible bonds over its total equity, at 31 December 2022 was 23% (2021: 41%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, cash and cash equivalents, trade payables, accrued charges and other payables, bank loans, and convertible bonds. Details of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

	2022 **RMB'000**	2021 RMB'000
Financial assets		
Financial assets measured at amortised cost	**122,693**	86,541
Financial liabilities		
Amortised costs	**95,970**	76,046

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to the credit risks are monitored on an ongoing basis.

(i) Trade receivables

Credit evaluations are performed on customers requiring credit terms. These evaluations focus on the customer's history of making payments and current abilities to pay and take into account information specific to the customer as well as to the economic environment. Normally, the Group does not obtain collateral from customers. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 17 and 18.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. 19% of the total trade receivables as at 31 December 2022 (2021: 19%) were due from the Group's largest customer, and 67% (2021: 74%) of the total trade receivables were due from the Group's five largest customers respectively.

The maximum exposure to credit risk of the Group's financial assets is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(a) Credit risk *(Continued)*

(i) Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2022 and 2021:

At 31 December 2022	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	RMB'000	RMB'000
Current (not past due)	1.9	59,454	1,113
Less than 1 month past due	2.6	10,008	256
Over 1 month but 3 months past due	3.9	10,392	404
Over 3 months past due	100.0	8,301	8,301
Individual assessment	20.5	9,180	1,886
		97,335	11,960

At 31 December 2021	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	RMB'000	RMB'000
Current (not past due)	2.0	46,644	912
Less than 1 month past due	2.5	6,785	170
Over 1 month but 3 months past due	4.0	6,222	250
Over 3 months past due	100.0	8,501	8,501
Individual assessment	29.1	10,672	3,108
		78,824	12,941

The expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

At 31 December 2022, the ECL of debtors with gross carrying amount of approximately RMB88,155,000 (2021: RMB68,152,000) was assessed by using provision matrix. Debtors with gross carrying amount of approximately RMB9,180,000 (2021: RMB10,672,000) as at 31 December 2022 was long overdue with significant amounts, known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

***(a) Credit risk** (Continued)*

(i) Trade receivables (Continued)

The closing loss allowances for including trade receivables as at 31 December 2022 and 2021 reconcile to the opening loss allowances as follows:

	Trade receivables lifetime ECL (not credit-impaired) RMB'000	**Trade receivables lifetime ECL (credit-impaired)** RMB'000	**Total** RMB'000
At 1 January 2021	2,264	8,325	10,589
Allowance for expected credit loss recognised in profit or loss during the year, net	2,176	176	2,352
At 31 December 2021 and 1 January 2022	4,440	8,501	12,941
Reversal of allowance for expected credit loss recognised in profit or loss during the year, net	(781)	(200)	(981)
At 31 December 2022	**3,659**	**8,301**	**11,960**

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 1 year past due.

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

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(a) Credit risk *(Continued)*

(ii) Other receivables

The following table shows the movement in 12m-ECL that has been recognised for other receivables:

	12m-ECL
	RMB'000
At 1 January 2021, 31 December 2021 and 1 January 2022	–
Allowance for expected credit loss recognised in profit or loss during the year, net	5
At 31 December 2022	5

The credit quality of the other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties.

(iii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(iv) Guarantee Contract

The guarantee contract of approximately RMB10,000,000 has been used by a related party as of 31 December 2022 and such guarantee obligation has been fully discharged on 20 March 2023. The fair value of this guarantee, at the date of initial recognition, was considered insignificant. At the end of the reporting period, the management has performed impairment assessment and concluded that there has no significant increase in credit risk since initial recognition. Accordingly, the loss allowance for this contract issued by the Group is measured at an amount equal to 12m ECL and no loss allowance was recognised in the profit or loss.

(b) Liquidity risk

The board of directors of the Company is responsible for cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

All non-interest bearing financial liabilities of the Group are carried at amount not materially different from their contractual undiscounted cash flow as all the financial liabilities are with maturities within one year or repayable on demand at the end of respective reporting period.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(b) Liquidity risk *(Continued)*

The following tables show the remaining scheduled maturities at the end of respective reporting period of the Group's bank loans if the bank loans are to be repaid over the agreed repayment schedules, which are based on scheduled undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period):

At 31 December 2022

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	**–**	**61,437**	**–**	**61,437**	**61,437**
Bank loans	**4.0%**	**17,230**	**–**	**17,230**	**17,000**
Convertible bonds	**19.2%**	**16,364**	**–**	**16,364**	**14,964**
		95,031	**–**	**95,031**	**93,401**

At 31 December 2021

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	–	19,239	–	19,239	19,239
Bank loans	5.0%	44,304	–	44,304	43,300
Convertible bonds	19.2%	1,261	16,364	17,625	13,507
		64,804	16,364	81,168	76,046

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's interest rate profiles as monitored by management are set out below.

The following table details the interest rate profile of the Group's borrowings at the end of each reporting period:

	2022		2021	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate borrowings:				
Bank loans	**4.00%**	**17,000**	4.78–5.52%	43,300

Interest rate risk from bank loans is considered insignificant given these loans are at fixed interest rates.

Fair value risk arising from these bank loans is considered insignificant given these loans have short maturities.

(d) Currency risk

Except for operations of the Company and other investment holding companies outside the PRC, the Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the management considers the Group's exposure to currency risk is insignificant.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(e) Fair values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2022 and 2021.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Liabilities for which fair values under non-recurring measurement are disclosed:

As at 31 December 2022

	Fair value measurement using		
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**
Liability component of Convertible bonds	**–**	**–**	**15,131**

As at 31 December 2021

	Fair value measurement using		
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Liability component of Convertible bonds	–	–	13,646

There were no transfer between Level 1 and 2 in both years. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

Valuation Techniques	**Unobservable inputs**	**2022**	2021
Binomial model	Discount rate	**17.9%**	19.7%

As at 31 December 2022, the discount rate used to compute the fair value is 17.9% (2021: 19.7%). The higher the discount rate, the lower the fair value.

27. MATERIAL RELATED PARTY TRANSACTIONS

The directors are of the view that the following are related parties of the Group:

Name of party	Relationship
Mr. Ding Peiji	Ultimate controlling party
Opulent Ample Limited	Shareholder of the Company which is a company a beneficially owned by Mr. Ding Peiji

(a) Material transactions with related parties

In addition to the related party transactions disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions during the year ended 31 December 2022 and 2021.

Guarantee provided by a related party

Secured bank loans of RMB17,000,000 as at 31 December 2022 (2021: RMB25,600,000) were guaranteed by Mr. Ding Peiji (Note 20).

Guarantee provided to a related party

As of 31 December 2022, a subsidiary of the Group provided a guarantee to a related party in an amount of RMB10,000,000.

(b) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 8 and the highest paid employees as disclosed in Note 9, is as follows:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	**2,650**	2,231
Contributions to retirement benefit scheme	**54**	74
	2,704	2,305

Total remuneration is included in "Staff costs" (Note 6(b)).

28. FINANCIAL POSITION OF THE COMPANY

	Note	2022 RMB'000	2021 RMB'000
Non-current assets			
Investments in subsidiaries		**114,373**	118,156
Current assets			
Other receivables		**–**	73
Cash and cash equivalents		**7,308**	83
		7,308	156
Current liabilities			
Other payables and accruals		**768**	4,174
Convertible bonds		**14,964**	–
		15,732	4,174
Net current liabilities		**(8,424)**	(4,018)
Total assets less current liabilities		**105,949**	114,138
Non-current liabilities			
Convertible bonds		**–**	13,507
Net assets		**105,949**	100,631
Equity			
Share capital	25(b)	**11,516**	9,474
Reserves	29	**94,433**	91,157
Total equity		**105,949**	100,631

Approved and authorised for issue by the board of directors on 28 March 2023.

Ding Peiji
Director

Ding Lizhen
Director

29. RESERVES OF THE COMPANY

	Notes	Share premium RMB'000 25(c)(i)	Share-based payment reserve RMB'000 25(c)(iv)	Convertible bond reserve RMB'000 25(c)(vi)	Exchange reserve RMB'000 25(c)(iii)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2021		272,205	9,900	4,141	17,333	(180,454)	123,125
Changes in equity for 2021:							
Loss for the year		–	–	–	–	(34,795)	(34,795)
Other comprehensive loss		–	–	–	(3,330)	–	(3,330)
Extinguishment of convertible bond (Note 22)		–	–	(2,387)	–	2,387	–
Issue of ordinary shares		6,236	–	–	–	–	6,236
Transaction cost attributable to placing of ordinary shares		(79)	–	–	–	–	(79)
Lapse of share options		–	(867)	–	–	867	–
Balance at 31 December 2021 and 1 January 2022		**278,362**	**9,033**	**1,754**	**14,003**	**(211,995)**	**91,157**
Changes in equity for 2022:							
Loss for the year		**–**	**–**	**–**	**–**	**(6,311)**	**(6,311)**
Other comprehensive loss		**–**	**–**	**–**	**(215)**	**–**	**(215)**
Issue of ordinary shares		**9,920**	**–**	**–**	**–**	**–**	**9,920**
Transaction cost attributable to placing of ordinary shares		**(118)**	**–**	**–**	**–**	**–**	**(118)**
Lapse of share options		**–**	**(4,462)**	**–**	**–**	**4,462**	**–**
Balance at 31 December 2022		**288,164**	**4,571**	**1,754**	**13,788**	**(213,844)**	**94,433**

For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

30. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2022 and 2021 are set out below:

Name of company	Place of Incorporation and business	Issued and paid up capital	Particulars of Group's effective Interest	Proportion of Ownership interest: Held by the Company	Proportion of Ownership interest: Held by a Subsidiary	Principal activity
Red Kids (China) Co., Ltd.*	PRC	HK$460,000,000	100%	–	100%	Design manufacture and sales of children apparel products
Miko (Shanghai) Apparels Co., Ltd.*	PRC	HK$20,000,000	100%	–	100%	Design manufacture and sales of children apparel products
Quanzhou Tuoyu Trade Co., Ltd.*	PRC	HK$1,000,000	100%	–	100%	Sales of children apparel products

* These entities are wholly foreign owned enterprises established in the PRC. The English translation of the companies' names is for reference only. The official names of these companies are in Chinese.

31. MAJOR NON-CASH TRANSACTIONS

During the year, prepayment for deposit of property, plant and equipment of RMB 4,070,000 has been capitalised to property, plant and equipment,

32. SUBSEQUENT EVENTS

The Directors are not aware of any significant events requiring disclosure that has taken place subsequent to 31 December 2022 and up to the date of this report.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2023.

FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 December 2022 (Expressed in Renminbi unless otherwise indicated)

The following table summarizes the consolidated results of the Group for each of the five years ended 31 December:

	2022 **RMB'000**	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Turnover	**142,415**	136,685	115,785	166,031	214,435
Gross Profit	**27,203**	31,474	8,634	29,473	38,663
Loss from operations	**(6,347)**	(20,335)	(73,215)	(248,872)	(193,941)
Loss before taxation	**(10,321)**	(24,989)	(78,218)	(256,389)	(201,498)
Loss for the year	**(10,321)**	(24,989)	(78,218)	(258,293)	(201,686)
Non-current assets	**87,273**	94,555	104,646	114,956	219,270
Current assets	**150,867**	121,984	133,456	215,197	371,003
Current liabilities	**95,970**	63,497	81,918	83,781	108,164
Net current assets	**54,897**	58,497	51,538	131,416	262,839
Net assets	**140,870**	138,235	154,884	231,569	480,809
Gross profit margin	**19.1%**	23.0%	7.5%	17.8%	18.0%
Operating loss margin	**(4.5%)**	(14.9%)	(63.2%)	(149.9%)	(90.4%)
Net loss margin	**(7.2%)**	(18.3%)	(67.6%)	(154.4%)	(94.0%)
Current ratio	**1.6 times**	1.9 times	1.6 times	2.6 times	3.5 times
Gearing ratio	**12.1%**	31.2%	38.2%	25.3%	19.4%
Inventory turnover day	**86 days**	141 days	124 days	159 days	182 days
Trade receivables turnover day	**194 days**	167 days	200 days	228 days	303 days
Trade and bills payables turnover day	**13 days**	14 days	13 days	7 days	8 days