



# CHINA LONGEVITY GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1863



# 2022

ANNUAL REPORT

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Liu Jun (*Chairman*)  
Mr. Lin Shengxiong (*resigned on 1 December 2022*)  
Mr. Huang Wanneng (*resigned on 1 December 2022*)  
Mr. Jiang Shisheng  
Mr. Gao Juwen (*appointed on 1 December 2022*)

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

Mr. Lu Jiayu (*Chairman*)  
Ms. Jiang Ping  
Mr. Lin Shengxiong (*resigned on 1 December 2022*)  
Mr. Lau Chun Pong

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Chow Yiu Wah, Joseph

## AUTHORISED REPRESENTATIVES

Mr. Chow Yiu Wah, Joseph  
Mr. Liu Jun

## INDEPENDENT AUDITORS

ZHONGHUI ANDA CPA Limited

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## STOCK CODE

1863

## CORPORATE WEBSITE

<http://www.chinalongevity.hk>

## INVESTOR RELATIONS CONTACT

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Telephone: (852) 2477 3799  
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## FINANCIAL HIGHLIGHTS

	2022	2021
<b>Results</b>		
Revenue (RMB million)	<b>926.6</b>	1,441.0
Gross profit (RMB million)	<b>146.3</b>	260.5
Profit before tax (RMB million)	<b>48.9</b>	117.8
Profit for the year attributable to Owners of the Company (RMB million)	<b>46.2</b>	106.9
Basic earning per share (RMB cents)	<b>5.42</b>	12.54
Gross profit margin (%)	<b>15.8</b>	18.1
<b>Financial position</b>		
Cash and cash equivalents (RMB million)	<b>90.6</b>	78.0
Total assets (RMB million)	<b>1,334.2</b>	1,391.4
Total debts (RMB million)	<b>688.3</b>	831.7
Total equity (RMB million)	<b>645.9</b>	559.7
Current ratio (Times)	<b>1.2</b>	1.0
Quick ratio (Times)	<b>0.8</b>	0.74
Gearing – borrowings to total assets (%)	<b>25.0</b>	19.0
<b>Efficiency ratios</b>		
Average trade receivables turnover (Days)	<b>100</b>	66
Average trade payables turnover (Days)	<b>77</b>	53
Average inventories turnover (Days)	<b>90</b>	54
Cash conversion (Days)	<b>113</b>	67

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors" and each a "Director") of China Longevity Group Company Limited (the "Company") and its subsidiaries (together referred to as the "Group"), I am pleased to present the 2022 annual report to the shareholders of the Company (the "Shareholders").

A review of the Group's business and the Group's key financial performance indicators are set out on page 2 of this report under the section Financial Highlights and the Management Discussion and Analysis set out on pages 7 to 18 of this report.

During the year ended 31 December 2022, the Group recorded a decrease in revenue of 35.7% from approximately RMB1,441.0 million last year to approximately RMB926.6 million. The profit attributable to shareholders for the year was approximately RMB46.2 million as compared to RMB106.9 million in the previous year.

## OVERVIEW

In 2022, the world economy slowed down under the impact of COVID-19, sharp increase in chemical material prices and geopolitical tensions. Top levels of management led the Group with a firm hand in tackling various challenges that rose in the industry and continued to focus on high-performance PVC composite products and eco-friendly building products business. Thus, the Group's core businesses continues to grow steadily during the year as a result.

### **The 20th anniversary of Fujian Sijia**

Fujian Sijia has embarked on its entrepreneurial journey of 20 years from 2002 to 2022. Its business partners, such as French Decathlon, Wanhua Chemical, Sweden Valinge and industry-academia-research partnership universities, sent their best wishes for the 20th anniversary via videos, congratulatory letters and gifts.

### **The construction of "Sijia (Fuqing) Industrial Park" by Fuqing Sijia**

Fuqing Sijia New Materials Technology Industrial Park project is a major industrial construction project in Fujian, and since its commencement, the project has made impressive progress. In March 2022, the grand commencement of the project's first phase attracted media coverage including Xinwen Lianbo and others; as of the end of December 2022, three plants in the first phase have completed their construction with a successive installation of equipment on-site.

# CHAIRMAN'S STATEMENT

## National-level honours awarded

During 2022, Fujian Sijia was awarded two honours of Specialized and New “Little Giant” Enterprise (專精特新「小巨人」企業) and National Enterprise Technology Centre by virtue of its specialized and new technologies, excellent innovation capability and outstanding industry influence.

In addition, the Fuzhou and Shanghai companies were also awarded several provincial and municipal honours: the title of Fujian “Specialized and New” SMEs (福建省「專精特新」中小企業), the Shanghai Green Factory, Demonstration Base of Business Secret Protection in Fujian, Harmonized Labour Relations Enterprise of Fujian Province, R&D-Centre Functional Headquarters Enterprise in Fuzhou, Enterprise of Observing Contract and Valuing Credit in Shanghai, and Outstanding Company in Innovation and Development in Fuzhou. Zhu Chaoyang, the chief electrical engineer, was awarded the “Fujian Provincial May Day Medal” by the Fujian General Labour Union.

## Digital management of operations

The Group considers digitalisation as the basic approach to its development at the present stage. Digitalisation of production management proved to be one of the key factors in improving the Group's overall efficiency results. On 7 July 2022, Fujian Sijia put its fully automatic digital functional film production line into operation, which became another digital production line since Sijia launched its digitalisation strategy, enabling a further expansion of production capacity and a new upgrade of digitization of production management; on 13 December 2022, Sijia Group announced the upgrades of the project of digital management of operation by introducing professional project teams to create competitive advantages in the new aspect in the future.

## Breakthroughs in critical industrial technology

In 2022, our Fujian Sijia's project of “key core technology and its application for extra-large spacing intelligent double tricot equipment” won the first prize of the Science & Technology Award for Technology Progress of China National Textile & Apparel Council (中國紡織工業聯合會); project of “reparation and application of high-performance textile-based structural flexible materials” under the National Key Research and Development Program and the technology of “barrier coating development against ink transference based on ‘Labyrinth Effect’” realized industrialization. In the same year, a number of new products were launched by various business units, witnessing the increasing strength of independent research and development of Sijia.

The Group's technological breakthroughs were made in collaboration with the introduction and cultivation of professional and technical talents, the industry-academia-research cooperation with colleges and scientific institutions and the application of the Group's proprietary technologies. During the year, the Group has released products such as Sijia super core film flooring and Sijia super core PET flooring/wall panels, which further enriched the product categories of Sijia super core construction materials. The research and development of new functional material products, including Sijia mesh composite material with the poly-circle pattern, Sijia BFRP composite material, Sijia compact luggage material, Sijia lightweight inflatable material and Sijia infusion bag material, essentially solved the application difficulties within the segmented market.

# CHAIRMAN'S STATEMENT

## **Services for Beijing Winter Olympic Games and Zhuhai Airshow**

In 2022, the Group became the supplier of marquees materials required for the Beijing Winter Olympic Games and China (Zhuhai) Airshow temporary supporting buildings in recognition of its professional product technical service and quality assurance.

In terms of three major competition venues of Beijing Winter Olympic Games, Sijia's marquees materials made a contribution to eco-friendly Olympic Games, presenting the advantages of low-carbon, zero-emission and transportable as a new kind construction material; as for China (Zhuhai) Airshow, Sijia's marquees materials were used to build temporary structures covering temporary warehouses, hangars, pedestrian walkways, security check halls, parking tents, restaurants, spectator rest zones, logistics tents, providing excellent shading and insulating effects, so as to ensure the success of such Airshow.

## **The key account supplier to Decathlon**

In December 2022, the Group became a global "Key Account Supplier" to Decathlon, indicating further integration in our partnership that will expand the scope of cooperation between us.

## **Promotion for the 10+ Culture construction**

In 2022, Sijia Group proposed to launch the construction of "10+ Culture" to implement its culture strategy. During the year, the Fuzhou Sijia and Shanghai Sijia of the Group conducted a variety of activities, such as rejoicing reading, Women's Day activities and Children's Day activities, for their employees, bringing more fun to Sijia people outside of work. Regular staff activities for educational purposes such as firefighting sports games and first aid trainings, which innovatively nurtured both staff training and entertainment.

## **Participation in public welfare activities**

The Group organised various public fund-raising activities for charities to help reduce poverty, gentrify rural areas, and inject funds into education, as way to give back to society with gratitude and appreciation.

## **Risk-Related Management, Innovation-Driven Development**

Given the heightened tensions in global political and economic conditions and the significant impact from Sino-U.S. trade war on the market and economy, as well as growing intensity in market competition, the Group sees 2023 as a year in which it shall do the utmost to work through amidst a challenging economic environment. The management team will continue to cooperate with and invest in domestic colleges and institutions to develop innovative and environmentally-friendly materials and eco-friendly construction materials products. All of these shall help to boost the business development of the Group.

## CHAIRMAN'S STATEMENT

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

With the support of the Group's Shareholders and the leadership of the Board, the Group will continue its product technology innovation strategy, reinforce its position in the markets of existing products, and develop drop stitch fabric products, airtight materials and super core eco-friendly building materials of Sijia as its core business in the future. Furthermore, the Group will persistently uphold its market development philosophy of adopting a customer-centric approach, create value for its customers and reciprocate its Shareholders and the community.

## APPRECIATION

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

On behalf of the Board

**Liu Jun**

*Chairman*

Hong Kong, 27 March 2023



# MANAGEMENT DISCUSSION AND ANALYSIS



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Being one of the notable leaders among the industry of manufacturing new materials featuring eco-friendliness and special features around the globe, the Group, whose businesses cover over 100 nations and regions around the world, considers low carbon, emission reduction and technical innovation as our core value and functional new materials as our primary products. The Group is dedicated to leading the eco-friendly industrial chain development of the industry, offering technical consultancy and services for the industry, providing Sijia new materials and super core construction material products for modern transportation, medical care, architecture, outdoor leisure activities and athletic sports. The Group's high-performance PVC composite materials ("Material Products") business, located in Fuzhou and Shanghai, utilizes self-developed equipment and processes that have been granted national invention patents in manufacturing new materials, including drop stitch fabric, architectural film, waterproofing film, marquees materials, air tightness materials, inflatable boats materials and inflatable materials.

The Group's eco-friendly building materials ("Building Material Products") business, located in Fuzhou, sells products across the world which are applicable in a wide spectrum of public and household domains, including education, healthcare, commerce, sports, offices, industrial usage and transportation which are in compliance with EU and U.S. standards and environmental requirements under the brands of "Zero Formaldehyde Super Core Flooring" and "Carbon Crystal Stone Wall Panel".

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

	For the year ended 31 December			
	2022	% of total	2021	% of total
	(RMB million)	revenue	(RMB million)	revenue
Material Products	841.6	90.8	1,347.9	93.5
Building Material Products	85.0	9.2	93.1	6.5
	926.6	100.0	1,441.0	100.0

## MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the year ended 31 December			
	2022	% of total	2021	% of total
	(RMB million)	revenue	(RMB million)	revenue
PRC	622.6	67.2	1,135.9	78.8
Others	304.0	32.8	305.1	21.2
	<b>926.6</b>	<b>100.0</b>	<b>1,441.0</b>	<b>100.0</b>

By virtue of our team's efforts, the Group achieved a total revenue of approximately RMB926.6 million for the year ended 31 December 2022 (2021: RMB1,441.0 million), representing a decrease of approximately RMB514.4 million, or 35.7% over last year. The Board considers such decrease was attributable to: (i) the global impact of coronavirus disease 2019 ("COVID-19") and geopolitical tensions arising from the Russian-Ukraine war; (ii) the continuous rise of US dollar debt leading to global inflation and an exponential decline in consumption ability; and (iii) a significant decline in customer purchasing power in Europe due to various issues such as energy shortages.

The above factors led to a decline in the sales of outdoor leisure products in European and American markets due to the decline in purchasing power of those from abroad, thus leading to a decrease in demand from downstream customers, which directly affected the sales of the Group's business, resulting in a year-on-year decrease in production, sales revenue and gross profit margin, and a substantial decrease in operating results for the year.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's products can be categorized into two: (i) Material Products; and (ii) Building Material Products. The Group generated most of its revenue from Material Products which accounted for approximately 90.8% (2021: 93.5%) of total revenue. Domestic sales continued to be the Group's major source of revenue, representing approximately 67.2% (2021: 78.8%) of the total revenue while export sales accounted for approximately 32.8% (2021: 21.2%) of the total revenue.

COVID-19 brought about a number of challenges to the global economy in 2022. Active steps were taken to continuously provide the anti-bacteria film for medical use. The Group cooperated with customers in setting up five-compartment-into-one hard air-inflated nucleic acid test laboratories to support different areas in the country during sudden outbreaks of COVID-19, and to improve pandemic prevention and control efficiency across the country.



Honored as the supplier of architectural film necessary for the temporary stadium of the Beijing Winter Olympic Games, the Group actively participated in the R&D and testing of materials used in national sports and fitness gyms in various locations across the country, temporary stadiums of the three major competition venues of the Beijing Winter Olympic Games and a nucleic acid test laboratory in Zhangjiakou Competition Venue.

In 2022, the Group's top selling products, drop stitch fabric and inflatable materials, were developed through continuous technological innovation.

## MANAGEMENT DISCUSSION AND ANALYSIS



As at 31 December 2022, the Group owned a total of 115 patents and/or copyrights. Among these, Fujian Sijia owned 73 patents (39 invention patents and 34 utility model patents), Shanghai Sijia owned 25 patents (nine invention patents, 16 utility model patents) and five software copyrights, and Fuqing Sijia owned 12 patents (one invention patents and 11 utility model patents). The Group is proactive in renewing their patent applications annually, in order to secure the continued protection of the brand's intellectual property rights.

In 2023, as the global market confronted multiple challenges arising from the Sino-US trade war and geopolitical tensions, the Group is expected to encounter further difficulties and challenges. However, a challenging market may also produce new innovations and opportunities. Crisis often gives rise to opportunities, whereas pressure and motivation are the two sides of the same coin. The Group will further its structural adjustment of its Material Products to maintain the Group's competitiveness.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Material Products**

During the year ended 31 December 2022, the Group's revenue generated from Material Products amounted to approximately RMB841.6 million (2021: RMB1,347.9 million) which accounted for approximately 90.8% (2021: 93.5%) of the Group's total revenue, representing a decrease of approximately 37.6%. The decrease in revenue from Material Products was mainly due to the decrease in revenue of drop stitch fabric arising from the pandemic's severe impact and the Russian-Ukraine war.

## **Building Material Products**

During the year ended 31 December 2022, the Group's revenue generated from Building Material Products amounted to approximately RMB85.0 million (2021: RMB93.1 million) which accounted for approximately 9.2% (2021: 6.5%) of the total revenue. The decrease in revenue from Building Material Products was mainly attributable to the impact of COVID-19 and decline in customers' purchasing power due to global economy downturn result from geopolitical conflicts.

## FINANCIAL REVIEW

### **Revenue**

The Group's revenue for the year ended 31 December 2022 was approximately RMB926.6 million, representing an decrease of approximately RMB514.4 million, or 35.7%, compared to the revenue of approximately RMB1,441.0 million for last year. For the year under review, the Group's major sales segments, namely, (1) Material Products recorded a revenue of approximately RMB841.6 million (2021: RMB1,347.9 million); and (2) Building Material Products recorded a revenue of approximately RMB85.0 million (2021: RMB93.1 million). The decrease in revenue was mainly due to the pandemic's severe impact on the Chinese economy and the contraction of market economies arising from the Russian-Ukraine war.

### **Gross Profit and Gross Profit Margin**

Gross profit was approximately RMB146.3 million for the year under review (2021: RMB260.5 million), with the gross profit margin of approximately 15.8% (2021: 18.1%). The drop in gross project margin was mainly due to the increase in purchase costs.

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

	For the year ended	
	31 December	
	2022	2021
	%	%
Material Products	14.1	18.7
Building Material Products	21.2	7.6
Total	15.8	18.1

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Profit for the Year**

The Group recorded a profit attributable to equity holders of approximately RMB46.2 million, or approximately RMB5.42 cents for basic earning per share for the year ended 31 December 2022 (2021: RMB106.9 million or RMB12.54 cents for basic earning per share).

## **Selling and Distribution Costs**

Selling and distribution costs were approximately RMB31.6 million (2021: RMB42.3 million). The decrease in selling and distribution costs was in line with the decrease in revenue.

## **Administrative Expenses**

Administrative expenses were approximately RMB77.1 million (2021: RMB92.9 million). The decrease in administrative expenses was mainly due to the decrease in research and development costs.

## **Research and Development**

Research and development (the "R&D") costs were approximately RMB41.2 million (2021: RMB60.0 million). The Group believes that its ongoing R&D efforts are critical in maintaining its long-term competitiveness and retaining existing customers. To explore new technologies and new products in order to attract new customers and develop new markets, the Group continues to dedicate resources to the R&D activities in its Fuzhou and Shanghai plants, aiming to lower the cost of raw materials, streamline manufacturing processes, increase production capacities and develop high value-added new materials.

## **Impairment of Various Assets**

### **— *Impairment of Trade and Other Receivables***

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

During the year ended 31 December 2022, reversal of allowance have been recognised in respect of trade receivables in the amount of approximately RMB0.2 million (2021: RMB1.6 million).

### **— *Impairment of Inventories***

Impairment of inventories amounted to approximately RMB1.3 million (2021: RMB0.7 million) for the year ended 31 December 2022 was recognised by the Group. It was mainly attributable to the written down of the slow moving and obsolete stocks.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Finance Costs**

Finance costs were approximately RMB13.1 million (2021: RMB15.7 million). The decrease in the finance costs was mainly due to the decrease in the bank borrowing interest rate and the interest on bank loans being partly capitalised.

## **Gain on revaluation of property, plant and equipment**

During the year, the Group revalued plant and machinery and recognised a revaluation gain of approximately RMB4.4 million (2021: RMB5.6 million) by reference to a professional valuation report.

## **Liquidity and Financial Resources**

### ***Total Equity***

As at 31 December 2022, total equity was approximately RMB645.9 million, representing an increase of 15.4%, as compared to approximately RMB559.7 million as at 31 December 2021.

### ***Financial Position***

As at 31 December 2022, the Group had total current assets of approximately RMB567.3 million (2021: RMB783.8 million) and total current liabilities of approximately RMB479.1 million (2021: RMB784.7 million), with net current assets of approximately RMB88.2 million (2021: net current liabilities RMB1.0 million).

As at 31 December 2022, the Group's net gearing ratio (expressed as a percentage of total interest-bearing liabilities to total assets) was at 24.9%, compared to 19.0% as at 31 December 2021.

### ***Cash and Cash Equivalents***

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB90.6 million (2021: RMB78.0 million), most of which were denominated in Renminbi.

### ***Bank Borrowings***

The Group had interest-bearing bank borrowings of approximately RMB302.0 million (2021: RMB193.8 million), while total banking facilities amounted to approximately RMB927.7 million (2021: RMB313.6 million).

Please refer to Note 33 to the consolidated financial statements of this annual report for more details.

### ***Contingent Liabilities***

As at 31 December 2022, the Group had no material contingent liabilities (2021: Nil).



# MANAGEMENT DISCUSSION AND ANALYSIS

## **Capital Commitments**

As at 31 December 2022, capital commitments of the Group were approximately RMB341.2 million (2021: RMB74.0 million). The capital commitments will be funded partly by internal resources and partly by bank borrowings.

## **Pledge of Assets**

As at 31 December 2022, the Group mortgaged its buildings, plant and machinery of approximately RMB268.7 million (2021: RMB300.0 million), leasehold land of approximately RMB68.5 million (2021: RMB15.2 million), investment properties of approximately RMB20.1 million (2021: RMB20.5 million) in the PRC and bank deposits of approximately RMB55.1 million (2021: RMB138.7 million) were pledged to banks to secure bank loans and general banking facilities granted.

## **Dividends**

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

## **Human Resources**

As at 31 December 2022, the Group had a total of 510 employees (2021: 471 employees). There was no significant change in number of staff as compared to last year.

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

## **Exposure to Fluctuations in Exchange Rates and Related Hedge**

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

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

## **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

During the year ended 31 December 2022, there were no material acquisition and disposal of subsidiaries, associates and joint ventures.

# MANAGEMENT DISCUSSION AND ANALYSIS

## DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed herein, the Group did not have any details of future plans for material investment or capital assets as at 31 December 2022.

### FUTURE PROSPECTS



# MANAGEMENT DISCUSSION AND ANALYSIS

## Prospects

Amid this global pandemic, continued decline in the economy, Sino-U.S. trade tensions and geopolitical tensions, the Group has responded to national policies by upholding fundamental principles and breaking new ground. The Group is prepared to face risks and challenges with strategic deployment and flexibility by leveraging on a dual-driver model consisting of the international and domestic sales market.

The Central Economic Work Conference held in December 2022 billed “striving to increase domestic demand” as the top priority of economic work for 2023 by promulgating the Strategic Plan for Expanding Domestic Demand (2022-2035) 《擴大內需戰略規劃綱要(2022-2035年)》 and the Implementation Plan for the Strategy for Expanding Domestic Demand in the 14th Five-Year Plan 《「十四五」擴大內需戰略實施方案》 by the State Council, as well as shifting in the nation’s domestic pandemic prevention and control measures. China’s economy is accelerating its economic recovery, and the development of the Group’s products is closely related to the national economic growth, while the industry will also enjoy new development opportunities.

## Breaking New Grounds, Operation with Soundness

Looking forward into 2023, the Group is determined to upgrade its businesses and operation models in a holistic way by relying on its innovative technologies and the professional technical team which are recognized by domestic and international peers:

1. to develop the domestic and foreign markets simultaneously, and explore vigorously the international and local markets through extensive participation in exhibitions at home and aboard and visits to domestic and overseas customers;
2. to reinforce the development of new materials business while developing new products actively;
3. to innovate new eco-friendly building materials products, actively market the brand of “Sijia Supercore” and make deployment in the Chinese building material market;
4. to achieve the goals of digitalization of operation, efficient horizontal/vertical collaboration, integration of business and finance, as well as “refinement, profitability and standardization” of management in a phased manner, in order to capture the high ground in the new competitive dimension of the industry;
5. to implement major strategic deployment in a continuous manner: on the basis of the “10+” Jia culture system, to foster positive and merit-oriented corporate culture and spirits, lead the management in terms of talent, quality, safety, market and others of the Group, so as to drive the Group’s high-quality development. Meanwhile, the Group will continue to focus on sales growth, product layout, technological innovation, organizational structure change, team building and other aspects;

## MANAGEMENT DISCUSSION AND ANALYSIS

6. to construct Fuqing Industrial Park: to complete the construction of the first phase of the project, and realize the production and operation of some product items, so as to gradually create advantageous conditions for upstream and downstream cooperation in research and development on new material technologies. All of these shall help to achieve a more efficient and high-quality development mode;
7. to deepen innovation of management, and make breakthroughs in lean management and security and environmental protection management;
8. to track the supply chain developments of industrial leaders to achieve the strategic goal of high efficiency, correctness, sustainability and digitalization;
9. to continuously promote the optimization of internal control processes such as procurement, production, sales and finance to improve operational efficiency;
10. to cultivate a team of high-level technical talents to further strengthen the Group's competitiveness, enhance the competitive strength in respect of talents, and promote sustainable development;
11. to enhance the protection of intellectual property rights for new technologies and processes, apply for more technology patents, build up the most innovative technology-based group in the industry, and create value for the shareholders of the Company;
12. to endeavor to create better living and working conditions to further improve the quality of material and spiritual life of Sijia employees; and
13. to actively fulfill our corporate responsibilities, actively participate in activities to help revitalizing the countryside and repay our hometown, as well as activities such as "1,000 enterprises helping 1,000 villages" and precise education and poverty relief.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

The Board consists of six Directors, including three executive Directors and three independent non-executive Directors.

### Executive Directors

**Mr. Liu Jun** (劉俊), aged 42, the general manager of the materials business department of the Group, is primarily responsible for the Group's Material Products sales business operation. Joined the Group in May 2003, Mr. Liu served as the head of the business section, the general manager of the industrial cloth procurement center in East China, the general manager of the materials business department and other positions of Fujian Sijia between May 2003 and December 2009, where he established the positioning of Sijia material, created "Sijia 9A" brand and determined the Group's leading position in the new domestic material industry. He was designated as the general manager of Xiamen Grandsoo Industrial & Trade Company Limited from January 2010 to February 2018, where he established a sales team and the "Jiang Taigong"\* (姜太公) brand, which contributed to the first ranking of product sales in the market. He has been serving as the general manager of the building materials business department of Fujian Sijia since March 2018, where he established the building materials business department, created the "Sijia Supercore" building materials brand, took charge of the production technology and management of new product development of the building materials business department, and participated in the drafting and application of five patents of the Company. Mr. Liu studied business administration courses at Tianjin University of Light Industry\* (天津輕工業學院), currently known as Tianjin University of Science and Technology.

**Mr. Jiang Shisheng** (蔣石生先生), aged 53, a senior engineer, is the division head of technical department of the Group, and primarily responsible for technological development of the Group. Prior to joining the Group in August 2006, Mr. Jiang served various positions as crafts technician, supervisor of technological development department and supervisor of technical center of Fujian Hongming Plastics Co., Ltd\* (福建宏明塑膠股份有限公司) from July 1992 to August 2003, crafts engineer of Sanming Mingxin Plastics Co., Ltd\* (三明明鑫塑膠有限公司) from August 1993 to July 1999, and supervisor of technical department of Zhejiang Longyue Technology Co., Ltd.\* (浙江龍躍科技有限公司) from August 2003 to April 2006. Mr. Jiang obtained a bachelor degree in engineering from Tianjin University of Light Industry\* (天津輕工業學院). He was involved in drafting and applying of dozens of patents for the Company. Mr. Jiang was awarded the honorary title of "top 10 inventor in Fuzhou city" by the Fuzhou Municipal Labour Union\* (福州市總工會) in 2014 and won numerous provincial and ministerial scientific and technological improvement awards.

**Mr. Gao Juwen** (高居文先生), aged 36, the general manager of Fuqing Company\* (福清公司) under the Group (Fujian Sijia New Materials Technology Co., Ltd.\* (福建思嘉新材料科技有限公司)), is generally responsible for the preparation and operation management in the early stage of the industrial park construction project of the Company and the promotion and implementation of the construction of the said project; the implementation and execution of the actions set out in the resolutions of the Group and the maintenance of external relations of Fuqing Company. Joined the Group in January 2021, Mr. Gao served as a financial manager, business procurement manager and co-founder successively in three companies covering clothing, outdoor products and incubator management during the 17 years prior to joining the Group, specializing in corporate finance management and brand operation. Mr. Gao was educated in public affairs management at Communication University of China\* (中國傳媒大學) and participated in drafting and filing several patents for the Company.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Independent non-executive Directors

**Mr. Lau Chun Pong** (劉振邦先生), aged 49, graduated from the University of California, Los Angeles with a Bachelor of Arts degree in Business Economics in 1997. Mr. Lau is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He has over 16 years' working experience in the accounting and auditing field. Mr. Lau was the Qualified Accountant and Company Secretary of Shenzhen Mingwah Aohan High Technology Corporation Limited (深圳市明華澳漢科技股份有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8301), since April 2005 till May 2006. He was the Financial Controller and Company Secretary of WE Solutions Limited (formerly known as O Luxe Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 860), since June 2008 till November 2017. He was the Group Financial Controller and Company Secretary of AV Promotions Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8419), since June 2018 till June 2019. He was the Company Secretary of Superb Summit International Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1228). He was the Company Secretary of Grand T G Gold Holdings Ltd (大唐滄金控股有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8299) since January 2019 till February 2020. He is currently an independent non-executive director of China CBM Group Company Limited (中國煤層氣集團有限公司), a company listed on the GEM of the Stock Exchange (stock code: 8270), since 13 November 2017 and the Chief Financial Officer and Company Secretary of Clifford Modern Living Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3686), since 20 December 2019.

**Mr. Lu Jiayu** (盧佳譽先生), aged 57, graduated from the Fujian Radio and Television University\* (福建廣播電視大學) in 1994. Mr. Lu has extensive experience in accounting, marketing, and business management. Prior to joining the Company, Mr. Lu held various positions in Youxi County Agricultural and Mechanical Company\* (尤溪縣農業機械公司) from July 1985 to December 1996. From January 1996 to January 2004, Mr. Lu worked in the Xiamen Liangxing Chemical and Industrial Company\* (廈門聯星化學工業公司) and was promoted to its associate general manager before he left his employment. In February 2004, Mr. Lu joined Fujian Shenlangxiang Cooking Oil (Group) Company\* (福建沈郎鄉食用油(集團)公司) as its associate general manager in sales department and was promoted to general manager of its Fuzhou branch company before he left his employment in May 2008. From June 2008 to June 2014, Mr. Lu was the director of Youxi County People's Government Office in Fuzhou\* (尤溪縣人民政府駐福州辦事處). He was the legal representative and general manager of Fujian Xulong Cultural Industry Company Limited\* (福建旭隆文化產業有限公司). Mr. Lu served as the executive chairman of Youxi Chamber of Fuzhou Commerce\* (福州尤溪商會) since June 2012 and the secretary general of Sanming Chamber of Commerce of Fuzhou City\* (福州市三明商會) in 2018.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Jiang Ping** (姜萍女士), aged 58, graduated from the Shenyang Industrial College\* (瀋陽工業學院) (currently known as Shenyang University of Technology (瀋陽理工大學)) in 1999. Ms. Jiang has over 20 years of experience in accounting, audit and finance management. Prior to joining the Company, Ms. Jiang held various positions in Shenyang First Food Plant\* (瀋陽市第一食品廠) from August 1986 to October 1992. From October 1992 to July 1997, Ms. Jiang has worked for the China Chemical & Light Industrial materials Corporation and Shenyang Chemical Joint Company\* (中國化工輕工材料總公司瀋陽化工聯合公司), where she was responsible for preparing statistical statements and auditing of product costs. From July 1997 to May 1999, Ms. Jiang held various positions in accounting at Shenyang Food Manufacturing Company Limited\* (瀋陽食品釀造有限公司) and was the financial manager before she left her employment. From May 1999 to March 2008, Ms. Jiang worked for Liaoning Huashang Certified Public Accountant Company Limited\* (遼寧華商會計師事務所有限責任公司) and was responsible for various auditing duties. Since March 2008, Ms. Jiang held the position of executive director and general manager of Shenyang Linghang Finance and Taxation Company Limited\* (瀋陽領航財稅事務有限公司).

### Senior Management

**Mr. Chow Yiu Wah, Joseph** (周耀華先生), aged 63, is the Company Secretary and Chief Financial Officer of the Group, and is responsible for the overall company secretarial, compliance and financial control of the Group. Mr. Chow has over 30 years' experience in the accounting, auditing and company secretarial work. Mr. Chow obtained a Bachelor of degree (Hons) in Accounting from University of Ulster (UK). He is fellow member of the Chartered Association of Certified Accountants, Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales and Hong Kong Securities and Investment Institute.

**Mr. Liao Basheng** (廖八生先生), aged 55, is the general manager of Fujian Sijia under the Group, responsible for conducting and coordinating the Company's overall manufacturing operations. Prior to joining the Group, Mr. Liao employed by a wholly-Taiwanese owned enterprise and has over 26 years of experience in industry production management, and possesses knowledge and skills with respect to quality, techniques, raw materials, operations, equipment, electrical and mechanical matters, and safety practices. He is capable of organizing staff in the production line in the most efficient manner to ensure completion of the production tasks allocated by the Company on schedule in compliance with quality standards. With a comprehensive skill set in organisation, commands giving and coordination, Mr. Liao is capable of solving significant quality and safety issues in the course of production independently, as well as reasonably arranging and allocating the Company's staff in the production line and management personnel in line with corporate development needs and requirements, partaking in discussions over a multitude of corporate management duties with staff members, listening to the staff's diverse opinions along with establishing a myriad of sound rules and regulations.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Zheng Lijuan** (鄭麗娟女士), aged 43, is the division head of the procurement department of the Group and deputy general manager of Fujian Sijia and is responsible for the procurement management and control of the Group, cost control and the internal sales, operation and management of the Group's flooring product projects. Ms. Zheng joined the Group in October 2005; during the period from October 2005 to June 2010, Ms. Zheng was the division head of finance of the Group; in March 2010, the division head of the procurement department of the Group; in June 2010, she was promoted as the deputy general manager. Ms. Zheng graduated from Xiamen University (廈門大學) in 1999, majoring in financial accounting and completed the MBA course of Fuzhou University (福州大學) in 2010.

**Mr. Zhu Chaoyang** (朱超揚先生), aged 54, is the engineer of the Group's the Fujian Sijia's equipment center and principally responsible for research and development of techniques for the Group's electrical equipment, equipment management and advancing equipment techniques, and has completed the design and installation of a combination of several production lines. With over 23 years of experience in industry technologies, equipment development, and production techniques improvement, Mr. Zhu possesses core knowledge and skills in operations, equipment, electrical and mechanical matters, and safety practices. Mr. Zhu graduated from Zhengzhou University of Light Industry\* (鄭州輕工業學院), majoring in household electrical appliances.

**Ms. Chen Guangxing** (陳光星女士), aged 35, is the Vice General Manager of Shanghai Sijia under the Group. Ms. Chen joined the Group in December 2005 and worked as the Financial Accountant and President's Assistant in the subsidiary of the Group, namely Fujian Sijia Industrial Material Company Limited from December 2005 to August 2012. Ms. Chen worked as the Vice General Manager of Shanghai Sijia since September 2012 and is responsible for overall in charge of purchasing, human resource and warehousing management. Ms. Chen graduated from Tianjin Technology University majoring Financial Accounting.



# CORPORATE GOVERNANCE REPORT

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

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

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Board has established procedures on corporate governance that comply with the requirements of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules. The Board has reviewed and taken measures to adopt the CG Code as the Company’s code of corporate governance practices. Save for the deviation discussed below, during the year ended 31 December 2022, the Company has complied with the code provisions under the CG Code.

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the standard for securities transactions by Directors. The Company has made specific enquiries to all the Directors and all the Directors have confirmed their compliance with the required standards set out in the Model Code for the year ended 31 December 2022.

## THE DUTY AND RESPONSIBILITIES OF BOARD AND DELEGATION TO MANAGEMENT

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

In addition, the Board has also established three Board Committees (the “Board Committees”), namely audit committee (the “Audit Committee”), remuneration committee (the “Remuneration Committee”), and nomination committee (the “Nomination Committee”) and has delegated to these Board Committees various responsibilities set out in their terms of reference respectively.

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

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

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

# CORPORATE GOVERNANCE REPORT

## COMPOSITION OF THE BOARD

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

The name and biographical details of each Director are set out in the section of Biographical Details of Directors and Senior Management on pages 19 to 22 of this annual report. All Directors have confirmed that they have taken an active interest in the Company's affairs and obtained a general understanding of its business.

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

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision C.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The roles of the Chairman and the Chief Executive Officer have been performed by Mr. Liu Jun. With Mr. Liu's extensive experience in reinforced materials markets, he is responsible for the overall strategic planning and business development of the Group. The Board considers that vesting both of the roles of Chairman and Chief Executive Officer with Mr. Lin is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the senior management and the Board, which comprises experienced and high caliber individuals.

To facilitate good corporate governance, the company has established the division of responsibilities between the Chairman and Chief Executive Officer. The responsibilities of the Chairman are performed in accordance with the code provisions under the Corporate Governance Code.

The Board will continue reviewing and considering the separation of the roles of the Chairman and the Chief Executive Officer at an appropriate time, taking into consideration the business development of the Group as a whole.

## APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

# CORPORATE GOVERNANCE REPORT

## RESPONSIBILITIES OF THE DIRECTORS

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

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

All Directors, including the non-executive Director and the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Through active participation at Board meetings, taking the lead in managing issues involving potential conflict of interest and serving on Board committees, all non-executive Directors (including the independent non-executive Directors) make various contributions to the effective direction of the Company.

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

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

All Directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times. The Directors shall disclose to the Company details of other offices held by them.

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

## CORPORATE GOVERNANCE REPORT

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

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2022, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors (the "INED(s)") play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. In particular, they bring an impartial view to bear on issues of the Company's strategy, performance and control. All INEDs possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The Board also considers that the INEDs can provide independent advice on the Company's business strategy, results and management so that all interests of shareholders can be taken into account, and the interests of the Company and its shareholders can be protected.

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

During the year of 2022, the Board at all times met the requirements of Rule 3.10(1) and Rule 3.10(2) of the Listing Rules relating to the appointment of at least three INEDs with at least one INED possessing appropriate professional qualifications, or accounting or related financial management expertise. In compliance with Rule 3.10A of the Listing Rules, the INEDs represented at least one-third of the Board throughout the year ended 31 December 2022.

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

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

During the year, all the Directors had reviewed the regular business and financial updates and other reading materials concerning latest developments in corporate governance practices and relevant legal and regulatory developments, that provided to them by the Company. Besides, the Company will arrange and fund suitable training for Directors in order to develop and refresh their knowledge and skills. Set out below is the information regarding the participation in continuous professional developments of each of the Directors during the year:

### *Executive Directors*

Mr. Liu Jun	B,C
Mr. Jiang Shisheng	B,C
Mr. Gao Juwen	A,B,C

### *Independent non-executive Directors*

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

A: attending seminars/meetings/forums/conferences/courses/workshops organized by professional bodies or regulators

B: reading journals/newsletters/seminar materials/publications/magazines

C: reading memoranda issued or materials provided by the Company

# CORPORATE GOVERNANCE REPORT

## BOARD MEETINGS AND GENERAL MEETINGS

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

	<b>Board Meeting</b>	<b>Audit Committee Meeting</b>	<b>Remuneration Committee Meeting</b>	<b>Nomination Committee Meeting</b>	<b>Annual General Meeting</b>
Number of meetings held for the year ended 31 December 2022	5	2	2	2	1
<i>Executive Directors</i>					
Mr. Liu Jun	5	N/A	N/A	N/A	1
Mr. Lin Shengxiong (resigned on 1 December 2022)	3	N/A	1	N/A	1
Mr. Huang Wanneng (resigned on 1 December 2022)	3	N/A	N/A	N/A	1
Mr. Jiang Shisheng	5	N/A	N/A	N/A	1
Mr. Gao Juwen (appointed on 1 December 2022)	N/A	N/A	N/A	N/A	N/A
<i>Independent non-executive Directors</i>					
Mr. Lau Chun Pong	5	2	2	2	1
Mr. Lu Jiayu	5	2	2	2	1
Ms. Jiang Ping	5	2	2	2	1

Note: All the meetings were attended by the Director himself/herself, and not by an alternate of the Director.

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

# CORPORATE GOVERNANCE REPORT

## CONFLICT OF INTEREST

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

## BOARD COMMITTEES

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

To provide independent views and input to the Board, the Board has adopted the following arrangements: (i) each committee or committee member is authorised to hire outside consultants or experts for independent professional advice at the Company's expense to discharge their responsibilities; and (ii) all of the committee members in each Board committee are independent non-executive Directors. The Board is responsible for the review of the implementation of such arrangements on an annual basis.

## AUDIT COMMITTEE

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

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

The Audit Committee is satisfied with their review of the auditors' remuneration, the independence of the auditor, ZHONGHUI ANDA CPA Limited, and recommended the Board to re-appoint ZHONGHUI ANDA CPA Limited as the Company's auditor in the financial year ending 31 December 2022, which is subject to the approval of shareholders at the forthcoming AGM. The Audit Committee has reviewed the Group's interim and annual consolidated financial statements and reports for the year of 2022, risk management and internal control system of the Group.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year. Details of the number of Audit Committee meetings held and Directors' attendance are set out in the section headed "BOARD MEETINGS AND GENERAL MEETINGS" on page 28 of this annual report.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

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

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

During the year ended 31 December 2022, the Remuneration Committee determined the exact level of Directors' remuneration by reference to the benchmarking of the market, individual Director's competence, duties, responsibilities, performance and the results of the Group. The Remuneration Committee, also approved the terms of executive Directors' service contracts.

The Remuneration Committee shall review and approve material matters relating to the share schemes under Chapter 17 of the Listing Rules in accordance with its revised terms of reference. In particular, it shall review, consider, and approve matters relating to share schemes of the Company as required under Chapter 17 of the Listing Rules.

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

Details of the number of Remuneration Committee meetings held and Directors' attendance are set out in the section headed "BOARD MEETINGS AND GENERAL MEETINGS" on page 28 of this annual report.

For the year ended 31 December 2022, the remuneration of members of senior management by band is set out below:

<b>Band of remuneration</b>	<b>Number of Individual</b>
Nil to RMB1,000,000	14



# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

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

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

## NOMINATION POLICY

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

### Selection Criteria

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

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

### Nomination Procedures

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

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

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

# CORPORATE GOVERNANCE REPORT

## Board Diversity Policy

The Board has adopted the Board diversity policy. The Board aims to achieve the measurable objectives by, among others, striking for the appropriate balance of gender with reference to stakeholders' expectations. During 2022, the Board comprise five male Directors and one female Director. The Nomination Committee will continue to use its best efforts to identify and recommend suitable candidates to act as Directors to the Board for its consideration. Details of the Board diversity policy are set out in the section headed "DIVERSITY" on page 33 of this annual report.

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

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

Details of the number of Nomination Committee meetings held and Directors' attendance are set out in the section headed "BOARD MEETINGS AND GENERAL MEETINGS" on page 28 of this annual report.

## CORPORATE GOVERNANCE FUNCTIONS

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

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

# CORPORATE GOVERNANCE REPORT

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

## DIVERSITY

### Board Diversity Policy

The Company adopted a Board Diversity Policy (the "Diversity Policy") which became effective in September 2013. The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, culture and education, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are based on merits, and the selection of candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Board plans to catch up with the industry average level in respect of the gender distribution in the near future by setting up internal numerical targets and timeline.

Nomination committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness from time to time, and propose to the Board for amendments when necessary. The Company has authorised the Nomination Committee to search for suitable potential candidates of a Director from time to time in order to develop a pipeline of potential successors to the Board to achieve gender diversity.

### Workforce Diversity

The Group aims to provide a diversified working environment for the workforce. The Board will continue to monitor and review the workforce diversity in accordance with the Listing Rules and plan to achieve a more balanced gender diversity ratio in the workforce, if possible. Set out below is the table summarising the diversity status among the workforce (including the senior management members).

Category	Employee structure	As at 31 December 2022	
		Number	Proportion (%)
Gender	Male	339	68.62
	Female	155	31.38
Type of employees	Senior Management	23	4.66
	Management at Middle Level	40	8.10
	Junior Employees	431	87.25

# CORPORATE GOVERNANCE REPORT

## RESPONSIBILITIES IN PREPARING THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibilities for preparing the financial statements of the Company and the Group for the year ended 31 December 2022.

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

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to ensure the Company maintains a sound and effective risk management and internal control system and reviews their effectiveness annually, and such 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 Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's risk management and internal control is conducted by the internal audit department annually, covering major financial, operational and compliance controls, as well as risk management functions. The internal audit department also resolves any material internal control defects. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. The last risk management and internal control review was conducted in 2022 and the internal audit department examined the risk management and internal control policies and measures for the year ended 31 December 2022.

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

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

## CORPORATE GOVERNANCE REPORT

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

The Company has developed a system with established procedures for complying with the disclosure obligations regarding the handling and dissemination of price sensitive and/or inside information in accordance with the Listing Rules.

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

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

### **WHISTLEBLOWING POLICY FOR EMPLOYEES TO RAISE CONCERNS ABOUT POSSIBLE IMPROPRIETIES**

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

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

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

### **LISTING RULES COMPLIANCE**

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

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

Audit Committee reviews the terms of appointment of the external auditor each year. The review includes their independence, the scope of their audit, their audit fees, and the scope and professional fees for any non-audit services. For the year ended 31 December 2022, services provided to the Company by its external auditor and the respective fees paid were:

<b>Services rendered</b>	<b>Fee paid/ payable</b> <i>HK\$'000</i>
Audit of financial statements	1,510
Other non-audit services	
— Review of the 2022 interim results	190
	<hr/>
	1,700

## COMPANY SECRETARY

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

The biographical details of Mr. Chow, are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. Mr. Chow took not less than 15 hours of relevant professional training during the year ended 31 December 2022 as required by the Listing Rules.

## COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' COMMUNICATION POLICY

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

The Company adopted a number of formal communication channels to deliver the information to Shareholders in a timely manner for assuring the Shareholders are kept well informed of the Company's key business imperatives. These include general meetings, interim and annual reports, various announcements and circulars. The Company's website offers a communication channel between the Company and the Shareholders as the website be updated with published information of the Group. The Company considers that the Shareholders' communication policy of the Company contributed an effective communication between the Company and the Shareholders during the year ended 31 December 2022.

# CORPORATE GOVERNANCE REPORT

## VOTING BY POLL

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

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

## SHAREHOLDERS' RIGHTS

### 1. Procedures for Shareholders to Convene an Extraordinary General Meeting

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

### 2. Procedures for Raising Enquiries

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

# CORPORATE GOVERNANCE REPORT

## 3. Procedures for Putting Forward Proposals at Shareholders' Meetings

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

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

### *ii. Other Proposals:*

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

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

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

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



# CORPORATE GOVERNANCE REPORT

## DIVIDEND POLICY

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

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

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

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

To the best knowledge of the Company, no Shareholders have waived or agreed to waive any dividends during the year ended 31 December 2022.

## PUTTING FORWARD ENQUIRIES TO THE BOARD

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

# CORPORATE GOVERNANCE REPORT

## CONTACT DETAILS

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

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

Telephone: (852) 2477 3799

Fax: (852) 2477 9969

Email: [ir@chinalongevity.hk](mailto:ir@chinalongevity.hk)

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

## CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2022, there was no change in the Memorandum and Articles of Association of the Company. The Memorandum and Articles of Association of the Company are available on the website of the Stock Exchange and the website of the Company.

In view of the recent amendments to the Listing Rules (update No. 134), the Company proposes a new resolution at the upcoming annual general meeting to be held on or about 24 June 2023 (the "AGM") to adopt the proposed amendments to the Memorandum and the Articles of Association and the proposed adoption of the amended and restated memorandum and the articles of association. Please refer to the circular regarding the AGM published by the Company for more details.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

China Longevity Group Company Limited (the “Company”) together with its subsidiaries (collectively the “Group” or “we”) are mainly engaged in the sales of functional polymer environmental protection materials and ecological building materials products in the PRC, and value the impact of our operations on society and the environment.

The Group is pleased to publish our seventh Environmental, Social and Governance (“ESG”) Report (the “Report”), which aims to explain to stakeholders the Group’s philosophy, strategy, goals and measures in terms of sustainable development, and to demonstrate our determination to take social responsibility.

## REPORTING PERIOD AND REPORTING SCOPE

The report covers the ESG-related performance and policies of the Group from 1 January 2022 to 31 December 2022 (“reporting period” or the “Year”). Unless otherwise specified, the reporting scope of the Report covers businesses directly controlled by the Group, including two major subsidiaries:

- Fujian Sijia Industrial Material Co., Ltd.(福建思嘉環保材料科技有限公司)(“Fujian Sijia”); and
- Sijia New Material (Shanghai) Co., Ltd (“Shanghai Sijia”) (collectively the “Major Production Bases”).

## REPORTING STANDARDS

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “HKEx”) and complies with the mandatory disclosure requirements and the “Comply or explain” provisions therein. The Report has been prepared on the basis of the following reporting principles:

Materiality	The Group has identified ESG material topics and the relevant process and criteria are disclosed in the Report. We have also identified and disclosed the key stakeholders, the process and the results of stakeholder engagement in the Report.
Quantitative	The Group calculates and discloses ESG-related key performance indicators (KPIs) in a quantitative manner where applicable. We have calculated the KPIs in accordance with Appendices II and III of the “How to Prepare an ESG Report” prepared by the HKEx.
Consistency	The Group uses a consistent statistical method to ensure that data allows for meaningful comparisons. If there are any changes to the statistical methods or any other relevant factors that affect meaningful comparisons, we will clearly state the same in the report.

## REVIEW OF REPORT

The Report was approved by the Board on 27 March 2023 after confirmation by the management.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ACCESS TO THE REPORT

The Report is published in both traditional Chinese and English versions and is available on the HKEx and the Group's website (<https://www.chinalongevity.hk>). In the event of any inconsistency between the two versions, the traditional Chinese version shall prevail.

## REPORT FEEDBACK

The Group values the views of our stakeholders on our sustainable development approach. If stakeholders have any comments on the ESG performance, policies and initiatives disclosed in the Report, they are welcome to contact us via email ([ir@chinalongevity.hk](mailto:ir@chinalongevity.hk)).

## AWARDS AND HONOURS

The Group and its Major Production Bases received a number of recognitions for their development, achievements and sustainability in 2022, including but not limited to the following awards and honours:

- National "High-quality Development of Technologically Advanced" SMEs (國家級「專精特新」中小企業)
- Fujian Technologically Advanced "Little Giant" Enterprise (福建省專精特新「小巨人」企業)
- Gazelle Enterprises in Jinshan District (金山區「瞪羚企業」)
- National Enterprise Technology Centre (國家企業技術中心)
- Fuzhou R&D-Centre Functional Headquarters Enterprise (福州市研發中心職能總部企業)
- Fuzhou Leading Industrial Enterprises in 2022 (福州市2022年工業龍頭企業)



The First Prize of the Science & Technology Award of the Technology Progress of China National Textile & Apparel Council (中國紡織工業聯合會)



Fujian Province Demonstration Base of Business Secret Protection (福建省商業秘密保護示範點)



National Intellectual Property Advantage Enterprise



Shanghai Enterprise of Observing Contract and Valuing Credit (上海市守合同重信用企業)



Green Development Award (綠色發展獎)



The Shanghai Green Factory

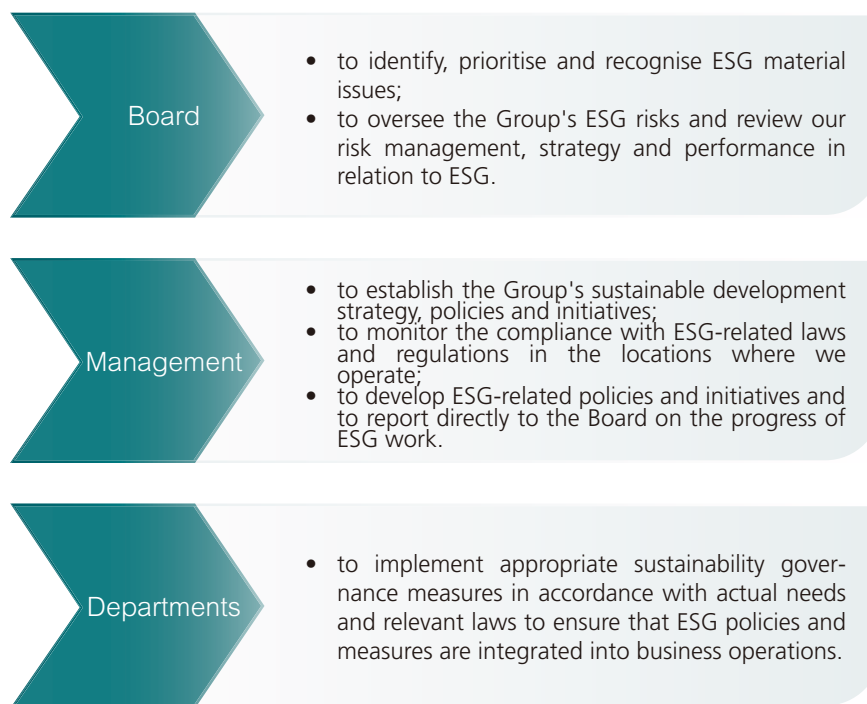
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SUSTAINABLE DEVELOPMENT GOVERNANCE

The Group considers environmental and social impacts as an important element of sustainable development. Therefore, we are committed to social responsibility and a robust sustainability governance framework to continuously improve our ESG performance and create sustainable value through various policies and initiatives.

The Board takes a leadership role in the Group and is ultimately responsible for ESG issues. The Board is responsible for identifying and prioritising the importance of ESG issues based on the Group's policies, business development and stakeholder's concerns.

The Board has appointed management to establish the Group's sustainability strategy, policies and initiatives, and to oversee the Group's ESG risks and regularly review our ESG risk management, strategy and performance to ensure that the management approach effectively sets the framework for sustainable development and integrates sustainability into our daily operations. The Group has also engaged Riskory Consultancy Limited as our third party independent consultant to provide ESG reporting and consulting services.



For other corporate governance related matters of the Group, please refer to the section headed "Corporate Governance Report" in this annual report.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER ENGAGEMENT

The views of our stakeholders enable the Group to continue to improve and develop its business. We have established a wide range of communication channels to maintain regular communication with our stakeholders to understand their concerns and expectations so as to help us formulate the Group’s sustainable development strategy.

Customers	Employees	Shareholders and Investors
<ul style="list-style-type: none"> <li>• WeChat</li> <li>• Email</li> <li>• Daily operation/communications</li> <li>• Site visit by customer relationship managers</li> <li>• Phone call</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly rationalization recommendation questionnaire</li> <li>• Project improvement</li> <li>• Performance evaluation</li> <li>• Meetings and interview</li> <li>• Employee suggestion box</li> <li>• Employee opinion survey</li> <li>• Employee communication conferences</li> <li>• Business briefing</li> </ul>	<ul style="list-style-type: none"> <li>• Annual general meetings</li> <li>• Investors meetings</li> <li>• Interim reports and annual reports</li> <li>• Corporate communications</li> <li>• Announcement of results</li> </ul>

Business Partners	Suppliers	Regulators	Media
<ul style="list-style-type: none"> <li>• Visits</li> <li>• Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Management process for suppliers</li> <li>• Site inspection</li> </ul>	<ul style="list-style-type: none"> <li>• Written response to public consultation</li> <li>• Compliance report</li> </ul>	<ul style="list-style-type: none"> <li>• Announcement of results</li> <li>• Senior management visits</li> </ul>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## MATERIALITY ASSESSMENT

In order to identify and prioritise the Group's ESG material topics, we have identified 25 ESG material topics, taking into account stakeholders' concerns, industry material issues by reference to international standards and the Board's considerations. We will highlight such issues in the Report.

Materiality issues	Materiality
<b>Environmental aspects</b>	
<b>1. Waste management</b> <b>2. Emissions management</b> <b>3. Water consumption and efficiency</b> <b>4. Use of resources</b> <b>5. Energy consumption and efficiency</b>	<b>High</b>
6. Greenhouse gas (GHG) emission 7. Climate change	Moderate
<b>Employment and labour practices aspect</b>	
<b>8. Employee health and safety</b> <b>9. Staff development and training</b>	<b>High</b>
10. Staff benefits	Moderate
11. Staff engagement, diversity and inclusion	Fair
<b>Operating practices aspect</b>	
<b>12. Compliance with laws and regulations</b> <b>13. Market competitiveness</b> <b>14. Prevention of child labour and forced labour</b> <b>15. Supply chain management</b> <b>16. Business ethics</b>	<b>High</b>
17. Anti-corruption 18. Whistle-blowing mechanisms	Moderate
<b>Product and service responsibility aspect</b>	
<b>19. Product responsibility</b> <b>20. Data security</b> <b>21. Customer service</b> <b>22. Product design and life cycle</b>	<b>High</b>
23. Intellectual property protection 24. Promotion and product service labels	Moderate
<b>Community aspect</b>	
25. Caring for community	Fair

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SOCIAL

### Anti-corruption

The Group considers compliance as the basis for stable business development, attaches importance to business integrity and ethics, and strictly prohibits all improper behaviors. We have put in place appropriate and effective internal control and risk management systems to prevent non-compliance throughout our operations and to continuously enhance the corporate image of the Group and the value of our stakeholders' investments.

The Group strictly complies with national anti-corruption laws, regulations and related rules, including but not limited to:

- The Supervision Law of the People's Republic of China
- The Criminal Law of the People's Republic of China
- The Company Law of the People's Republic of China
- The Anti-Money Laundering Law of the People's Republic of China

During the reporting period, we were not aware of any material non-compliance of anti-corruption laws and regulations relating to bribery, extortion, fraud and money laundering that would have a material impact on the Group, nor have we received any settled legal cases of corruption, bribery, extortion, fraud and money laundering against the Group or its employees.

The Group is committed to maintaining ethical standards by adhering to the principles of integrity and honesty, thereby establishing an internal code of conduct and requiring strict compliance by staff in all departments. In addition, an anonymous whistle-blowing mechanism is in place to encourage employees, customers, suppliers and other stakeholders associated with our business to report any suspicions of bribery or improper behaviour while keeping the identity of whistleblowers strictly confidential. If any irregularities are discovered, we accept accountability to the person concerned in a fair, impartial and open manner.

We regularly organise different anti-fraud trainings for the Directors and employees of the Group and provide them with relevant information with the aim of strengthening the employees' awareness against illegal and undisciplined acts such as seeking improper benefits, including but not limited to:

- Providing our Directors with "Practical Guide to Integrity for Directors";
- Providing our management staff with a management manual on honesty; and
- Providing our employees with information on Prevention of Bribery Ordinance of Hong Kong, etc.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## PRODUCT RESPONSIBILITY

### Product quality

The Group is dedicated to providing quality products. To ensure our brand reputation and the stability of our business, we always pay attention to the quality, health and safety of the products and services provided, and strictly control the quality of our products to make sure that they meet our customers' requirements. We strictly comply with the laws and regulations relating to product quality and health and safety, including but not limited to the Product Quality Law of the People's Republic of China.

To ensure that the quality of our products is maintained at a high level, and that the products and services provided comply with safety and health regulations, we conduct regular quality sampling tests on our products. At the same time, Fujian Sijia has obtained the ISO 9001 Quality Management System Certification.

### Product recall procedure

1. When the Company discovers or has evidence indicating that there are quality problems in the products sold in the market, it shall take prompt measures of withdrawal.
2. The quality control department is in charge of the product recall work, and is responsible for the implementation of the product recall decision.



We were not involved in any product recalls due to health or safety concerns during the reporting period.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Information security management

The Group is committed to safeguarding information security to protect the privacy security of our customers and our corporate reputation thereby enabling our business to grow sustainably. We strictly comply with the laws and regulations relating to information security, including but not limited to:

- The Law of the People's Republic of China on Guarding State Secrets
- The Implementation of the Law of the People's Republic of China on Guarding State Secrets

As customer data is a highly confidential document of the Group, we have established a code of conduct for business operations and services relating to information security management to strictly regulate the professional conduct and work procedures of our employees in handling customer data, and to inculcate the responsibility to respect customer privacy and handle the Group's data properly into employees, so as to ensure that no customer data will be lost or leaked. In addition, we restrict employees' access and rights to customer data and the Group's data which only access to those with authorisation to minimise the risk of leakage of confidential information.

## Product promotion and information disclosure

The Group believes that honest and complete disclosure helps us maintain good relationships with our customers, investors and other stakeholders. We are careful in handling the release of inside information, advertising, labelling and related matters, and strictly prohibit fraudulent practices such as the use of false and misleading product descriptions, to ensure the delivery of complete and true information to the public in an appropriate manner. In terms of information disclosure and product promotion, we strictly comply with the relevant laws and regulations, including but not limited to the Advertising Law of the People's Republic of China.

During the reporting period, the Group was not aware of any non-compliance of the laws and regulations relating to information disclosure and product promotion that would have a material impact on the Group. We also strictly comply with the Main Board Listing Rules, which requires the Group to make announcements of inside information as soon as a decision is made.

## Intellectual property rights

Intellectual property is an important property of the Group and we strictly comply with the relevant laws and regulations, including but not limited to:

- The Patent Law of the People's Republic of China
- The Trademark Law of the People's Republic of China
- The Implementation Rules for Patent Law of the People's Republic of China

During the reporting period, the Group was not aware of any breach of the laws and regulations relating to intellectual property that would have a material impact on the Group.

The Group emphasises respect for intellectual property rights and regards them as a basic professional conduct for our employees. We require our employees not to own or use copyrighted materials, including intellectual property rights, legal patent rights, trademark rights and copyrights, without the permission of the copyright owner. We will take disciplinary action where appropriate if any violation is found. In addition, we closely monitor the market for infringements, such as counterfeit trademarks, to ensure that our intellectual property rights are not infringed.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## CUSTOMER SERVICE

The Group upholds the "customer-oriented" philosophy to provide high quality services to our customers and attaches great importance to their opinions. To satisfy customers' needs and expectations, we have established a comprehensive system to handle customers' enquiries, complaints and after-sales services. We have also set up a dedicated customer channel to proactively collect their feedback, enquiries and complaints, and arrange regular meetings or telephone interviews between our sales staff and our customers.

Upon receipt of any complaint from a customer, we will immediately follow up on the matter, communicate with the customer concerned and conduct an investigation, and provide feasible remedial measures. We will also conduct a comprehensive analysis of customer feedback, examine the causes of the complaints and discuss practical remedial measures to continuously improve our services and prevent the recurrence of similar situations.

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

## SUPPLY CHAIN MANAGEMENT

The Group's business development relies on a stable and sustainable supply chain. We strictly comply with national laws and regulations relating to supply chain management, including but not limited to:

- The Law of the People's Republic of China on Tendering and Bidding
- The Implementation Regulations of the Law of the People's Republic of China on Tendering and Bidding

During the reporting period, the Group has 329 major suppliers with the following geographical distribution:

Region	Number of suppliers
Mainland China	<b>322</b>
— Northeast China	3
— South China	47
— Central China	21
— North China	13
— Southwest China	5
— East China	231
— Northwest China	2
Hong Kong, Macao and Taiwan	<b>2</b>
Korea	<b>3</b>
United States	<b>1</b>
Germany	<b>1</b>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

In order to establish a long-term and stable relationship with our suppliers and to assess their environmental and social risks, we have put in place a standardised procurement and tendering process to carefully assess all potential suppliers. In selecting suppliers, we will not only assess their service performance and product quality, but also consider their environmental certifications for final selection.

Supplier assessment factor		
Environmental	Social	Governance
<ul style="list-style-type: none"> <li>Encourage suppliers to make efforts to protect the environment and reduce the environmental impact of their operations</li> <li>Promote initiatives such as environmental-friendly sourcing to suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Require suppliers to strictly prohibit child labour and forced labour</li> <li>Require suppliers to provide a healthy and safe working environment for their employees</li> </ul>	<ul style="list-style-type: none"> <li>Require suppliers to comply with the laws and regulations of all locations in which they operate</li> <li>Suppliers are strictly prohibited from engaging in any unethical practices such as corruption and bribery</li> </ul>

Meanwhile, to ensure the stability of our supply chain, the Group has also established a comprehensive supply chain tracking system to closely monitor the sources of supply, channels, quality and follow-up services of our products and services. During the reporting period, the Group has conducted assessments on all major suppliers.

## EMPLOYMENT

### Human resource management

The sustainable development of the Group relies on the efforts of our staff. To maintain and attract talent, we are committed to building a harmonious and trusting employment relationship, upholding a people-oriented approach to business and respecting and protecting the legitimate rights and interests of every employee. We strictly comply with laws and regulations relating to employment, including but not limited to:

- The Labour Law of the People's Republic of China
- The Labour Contract Law of the People's Republic of China

During the reporting period, the Group was not aware of any breach of the laws and regulations relating to employment that would have a material impact on the Group.

We have established the Group's internal operating procedures in accordance with the relevant national regulations to regulate the dismissal procedures of employees and to understand the reasons behind their resignation, in order to continuously optimise the Group's operational mechanism.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As at 31 December 2022, the total number of employees of the Group was 494 and its distribution by different categories is as follows:

Employee category	Unit	Number of employees
<b>By gender</b>		
Male	Number of people	339
Female	Number of people	155
<b>By employment type</b>		
Full-time	Number of people	489
Part-time	Number of people	5
<b>By age group</b>		
Aged 25 or below	Number of people	58
Aged 26-35	Number of people	148
Aged 36-45	Number of people	121
Aged 46-55	Number of people	115
Aged 56 or above	Number of people	52
<b>By region</b>		
Mainland China	Number of people	493
Overseas	Number of people	1

During the reporting period, the Group's employee turnover rates are as follows:

Employee turnover rate*	Unit	Turnover rate
<b>By gender</b>		
Male	Percentage	36.76
Female	Percentage	39.92
<b>By age group</b>		
Aged 25 or below	Percentage	52.91
Aged 26-35	Percentage	30.30
Aged 36-45	Percentage	37.58
Aged 46-55	Percentage	33.97
Aged 56 or above	Percentage	27.66
<b>By region</b>		
Mainland China	Percentage	37.86
Overseas	Percentage	0

Note: The employee turnover rate is calculated by the total number of employee turnover during the Reporting Period divided by the sum of the number of employees at the beginning of the period and number of new employees during the reporting period.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Diversity and anti-discrimination

The Group is committed to providing a diverse and equitable working environment for its employees. Our talent selection system is based on the principles of fairness, democracy and meritocracy in recruiting employees for suitable positions. In addition, we have established a sound human resources management policy to meet the Group's current and future human resources needs through a fair and impartial recruitment process. In the recruitment process, priority is given to the educational background and work experience of interview candidates, regardless of their nationality, race, colour, religion, age, gender, political affiliation, sexual orientation, disability, family status and other legally protected factors.

The Group regards diversity and inclusion of employees as an important element of human resources management. We have adopted a policy of diversity in Board membership by taking into account a number of factors such as gender, age, culture, education, professional background and skills, knowledge, experience and other requirements for selection, in order to demonstrate as a diversity in the Group's staff recruitment process.

In addition, the Group ensures that employees are given fair and equal consideration in recruitment, training, promotion, resignation, termination of employment, working hours and leave, benefits and remuneration, and prohibits any discrimination against employees. The Group will take disciplinary action if any irregularities are found.

## Welfare

The Group is committed to offering competitive salaries and benefits to its employees to attract talents. The Group has established a Remuneration Committee and a comprehensive remuneration system to set reasonable remuneration for our employees with reference to market rates and the Group's operating conditions. Salary and benefit adjustments are made on a regular basis, such as staff appraisals, annual reviews of salary structures as a basis for salary and position adjustments, as well as bonuses and long service awards for individual employees as appreciation to their contributions to the Group.

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

## LABOUR STANDARDS

The Group ensures that the rights of our employees are protected and that we operate in strict compliance with the laws and regulations relating to labour standards, including but not limited to:

- The Law on the Protection of Minors
- The Prohibition of Using Child Labour

During the reporting period, the Group was not aware of any breach of laws and regulations relating to labour standards that would have a material impact on the Group, nor was there any employment of child labour or forced labour.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In the recruitment process, we will sign a legally binding labour contract with each employee to protect the rights and interests of both parties, including regular working hours and others, so as to avoid the situation of forced labour. The Group's administration and human resources departments are responsible for collecting and verifying the identity documents of candidates during the recruitment process to prevent the employment of child labour. If any cases of child labour or forced labour are found within the Group, we will investigate and take disciplinary action against the employees involved. The Group regularly reviews its recruitment process to ensure that incidents of child labour and forced labour do not occur.

## HEALTH AND SAFETY

As our employees are an important asset to the Group, we place great importance on the occupational health and safety of our employees. We strictly comply with laws and regulations relating to health and safety, including but not limited to:

- Law of the People's Republic of China on the Prevention and Control of Occupational Disease
- Fire Production Regulation of the People's Republic of China
- Production Safety Law of the People's Republic of China
- Regulations on the Supervision and Administration of Occupational Health in the Workplace
- Regulation on Work-Related Injury Insurance

During the reporting period, the Group was not aware of any breach of laws and regulations relating to health and safety that would have a material impact on the Group. Fujian Sijia has also obtained the ISO 45001 Occupational Health and Safety Management System Certification.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to create a safe working environment, we have set up a safety incident notification mechanism through which employees can report potential hazards for the Company to investigate and make improvement arrangements. We also provide our employees with the necessary protective equipment to ensure their safety. We have also established procedures for dealing with work-related injuries:



We provide professional safety skills training to employees in different departments and positions to enhance their awareness of occupational safety. The training covers safety regulations, possible hazards in the workplace and emergency response measures and updates on occupational safety information to enhances occupational and health education.

In addition, we have established a smoke-free workplace policy which prohibits smoking in the Group’s workplace to protect the health of our employees. We have also established an annual smoking cessation award to encourage employees to quit smoking. During the reporting period, we also arranged for health consultants to consult with our employees. In the face of the challenges of the epidemic, the Group coordinated work schedules for staff in a reasonable manner, arranged them to work at home to minimise the risk of infection, and distributed epidemic prevention materials to them.



Smoking Cessation Award of the Year



Staff consultation by health consultants



Fire drill



First aid safety seminar



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the past three years including the reporting period, the Group did not have any cases of work-related fatalities. During the reporting period, the Group lost a total of 569 working days due to work-related injuries, all of which were properly handled in accordance with the above procedures.

## DEVELOPMENT AND TRAINING

Given that the progress of our employees is closely related to the Group's development, we place great emphasis on developing the potential of employees and providing them with a wide range of training and development opportunities.

Every year, we customize a series of training programmes and plans based on business needs and employees' performance, and standardise and promote systematic training with dedication to the provision of career development opportunities for our employees in different positions. We also regularly invite various professional organisations to provide professional and diversified training courses for employees to learn more about the relevant laws and regulations, product knowledge and the latest development of the industry.

In addition, the Group supports its staff to attend seminars, sharing sessions and relevant courses organised by professional organisations through various incentives such as examination leave and cash subsidies, thereby actively encouraging our staff to pursue continuous learning and further education to enhance their professional skills and competitiveness.



Industry technology exchange sessions  
R&D teams from Tsinghua University, Peking University and  
Renmin University of China and Sijia R&D Team



Recognition of outstanding employees of the Year

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the Group's employee training data are as follows:

Employee category	Percentage of employees trained	Average number of hours of training completed per employee
<b>By gender</b>		
Male	98.8	138
Female	98.7	115
<b>By employment type</b>		
Junior staff	100	58
Intermediate management	100	270
Senior management	98.6	122

## COMMUNITY INVESTMENT

Giving back to the community has always been a part of the Group's development objectives. During the reporting period, we focused on community engagement in health, education, poverty alleviation and care for the elderly, donating a total of over RMB1.3 million, including donations through the Sijia Foundation. We also donated supplies to frontline medical staff in epidemic prevention, supplies and scholarships to kindergartens, primary and secondary schools and universities, poverty relief funds for rural areas and poverty-stricken districts, and consolation money and gifts for the elderly in the community during the holidays. We also encourage our staff to volunteer their time and skills to care for the community.



Consolation for Huanxi households in need



Donation of supplies for frontline workers in Fuzhou in epidemic prevention

In the future, the Group will continue to give back to the society through other means and will continue to pay attention to the economic and cultural development of the community, actively fulfilling its civic responsibility as a good corporate citizen and bringing positive impact to the society.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENTAL

### Emission

The Group actively fulfils its responsibility towards the environment by incorporating environmental considerations into our business operations through various energy saving and environmental protection measures with a view to mitigating the impact of our operations on the environment. The Group strictly complies with the laws and regulations relating to environmental protection, including but not limited to:

- Environmental Protection Law of the People’s Republic of China
- Atmospheric Pollution Prevention and Control Law of the People’s Republic of China
- Water Pollution Prevention and Control Law of the People’s Republic of China
- Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste

During the reporting period, the Group was not aware of any breach of laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that would have a material impact on the Group. In addition, Fujian Sijia has obtained the ISO 14001 Environmental Management System Certification.



### Air emissions

The Group’s emissions are mainly from the use of vehicles and boilers and our emission data for the reporting period are as follows:

Air emissions	Unit	2022
Nitrogen oxide (NO <sub>x</sub> )	Tonne	29.63
Sulphur oxides (SO <sub>x</sub> )	Tonne	7.11
Particulate matter (PM)	Tonne	10.64

The Group is committed to progressively reducing vehicle emissions, promoting low-carbon transport and encouraging them to use public transport whenever possible.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Greenhouse gas emissions

The Group's greenhouse gas (GHG) emissions mainly come from energy consumption and vehicle use at our major production bases. We have conducted GHG statistics for our major production bases in accordance with the GHG Protocol prepared by the World Resources Institute and the World Business Council for Sustainable Development and the Verification of Greenhouse Gas Emission Reports of Enterprises (Trial Implementation) prepared by the Ministry of Environmental Protection. During the reporting period, the Group's GHG emission data are as follows:

GHG emissions	Unit	2022
Scope 1 (direct emission)	Tonnes of CO <sub>2</sub> e	2,888.21
Scope 2 (indirect emission)	Tonnes of CO <sub>2</sub> e	15,143.02
Biogenic emissions	Tonnes of CO <sub>2</sub> e	15,649.26
Total emissions	Tonnes of CO <sub>2</sub> e	33,680.49
Emission intensity	Tonnes of CO <sub>2</sub> e/ RMB10 million revenue	363.48

The Group targets to progressively reduce its GHG emissions in the future and to implement the following measures:

- implement energy saving measures in our daily operations to reduce electricity and vehicle fuel consumption;
- monitor the fuel consumption of the Group's vehicles and carry out regular inspections and maintenance on the vehicles to avoid unnecessary fuel consumption due to ageing of parts;
- fully launch rooftop photovoltaic power generation projects in Shanghai Sijia and Fujian Sijia, so as to promote energy saving and emission reduction with green energy; and
- introduce green product design to reduce energy consumption.

## Waste management

The Group strictly complies with the relevant laws and regulations in handling waste and places emphasis on waste reduction at source and encourages employees to recycle at their workplace. Our non-hazardous wastes mainly consists of general domestic waste and food waste from the staff canteen, which are collected centrally by the municipal sanitation department or the property office of the industrial area respectively. Our hazardous wastes, including waste motor oil and waste activated carbon, are transferred by qualified third parties for disposal. We also arrange qualified recyclers to collect hazardous waste such as waste batteries, computers, waste ink cartridges, etc.

During the reporting period, the Group generated the following wastes:

Waste generation	Unit	2022
Hazardous waste	Tonne	2.43
Hazardous waste intensity	Tonne/RMB10 million revenue	0.03
Non-hazardous waste	Tonne	62.55
Non-hazardous waste intensity	Tonne/RMB10 million revenue	0.68

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Looking ahead, the Group targets to progressively reduce the generation of hazardous and non-hazardous wastes and to implement the following measures:

- encourage employees to replace non-essential paper documents with electronic documents, reuse office stationery items and avoid using non-recyclable items, etc.;
- encourage employees to improve paper usage efficiency, such as printing in duplex and ink-saving modes, using recycled paper, etc.; and
- post reminders at prominent places on the printers to cultivate employees' practices of saving paper.

## USE OF RESOURCES

### Energy consumption

The Group's energy consumption is mainly the fuel consumption of electricity, vehicle and boiler for production. We are actively implementing green office measures and improving energy management to save energy. Fujian Sijia has also obtained the ISO 50001 Energy Management System Certification.



During the reporting period, the Group's energy consumption data are as follows:

Energy consumption	Unit	2022
Direct energy		
— Non-renewable fuels	MWh	55,095.79
— Renewable energy	MWh	2,155.42
— Subtotal	MWh	57,251.21
Indirect energy	MWh	24,820.56
Total energy consumption	MWh	82,071.77
Energy consumption intensity	MWh/RMB10 million revenue	885.71

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As energy consumption is closely linked to GHG emissions, the Group is committed to gradually reducing energy consumption by promoting an energy-efficient and emission-reducing office culture. We have implemented the following energy saving measures:

- encourage staff to turn off all unnecessary lighting systems and other electronic equipment such as printers, computers to avoid idle appliances;
- install independently controllable light switches in different areas of the office and use daylighting whenever possible; and
- adjust the air-conditioning temperature to suit the actual needs and allow staff to wear light clothing to work without affecting the corporate image of the Group.

## Water resources management

The Group's water mainly comes from the municipal water supply systems in the localities of our major production bases and during the reporting period, our water consumption is as follows:

Consumption of water resources	Unit	2022
Water consumption	m <sup>3</sup>	34,322
Water consumption intensity	m <sup>3</sup> /RMB10 million revenue	370.4

The Group recognises the value of water resources, therefore, we encourage our staff to cherish the water and implement various measures to avoid wasting water with a view to gradually reducing water consumption:

- conduct regular leak testing and maintenance work on concealed water pipes to ensure optimum performance of water-using facilities; and
- post posters about water conservation and remind staff to turn off water taps.

During the reporting period, the Group did not encounter any significant problems in obtaining the applicable water sources.

## Packaging materials

The packaging materials used by the Group are mainly cardboard and woven bags. During the reporting period, the amount of packaging materials used by the Group is as follows:

Packaging material usage	Unit	2022
Packaging material consumption	Tonnes	1,612.67
Packaging material consumption intensity	Tonnes/RMB10 million revenue	17.40

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## THE ENVIRONMENT AND NATURAL RESOURCES

Although the nature of the Group's business does not involve significant impact on the environment, we still actively practice environmental protection by implementing environmentally-friendly policies to save energy, improve energy efficiency, encourage recycling and reduce waste generation.



Introduction of green products design and use of green materials.



Installation of recycling bins in the workplaces to reduce waste generation.



Reminders for staff to switch off the main power of unused appliances.

## RESPONDING TO CLIMATE CHANGE

In view of the different impacts climate change brings to businesses around the world, we have established policies to govern the identification of risks and opportunities associated with climate change and the development of responses.

We have identified the associated acute physical risks. Climate change can exacerbate extreme weather events such as typhoons and rainstorms, which may cause damage to our major production bases and pose a threat to the safety of our employees. Therefore, in the midst of extreme weather events, the Group will strictly adhere to the relevant extreme weather guidelines issued by the government and exercise flexibility in the work schedule of our staff. In addition, we will further discuss with our suppliers and logistics companies on emergency measures to protect the safety of our staff and customers and minimise the impact of extreme weather on our business.

At the same time, the Group will continue to adopt the energy saving and environmental protection measures disclosed in this Report in its business operations to reduce energy consumption, and regularly review the relevant measures to ensure their effectiveness, so as to contribute to the mitigation of climate change.

In addition, climate change also brings us opportunities. With the increasing emphasis on environmental protection by the state and enterprises, there is a growing demand for green products in the market. We will look into investing more capital and technology in the research and development of environmentally friendly materials and introducing more green product designs to move towards a low carbon economy.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ESG REPORTING GUIDE CONTENT INDEX

Content		Section
<b>Mandatory disclosure</b>		
<b>Governance structure</b>	A statement from the Board containing the following elements: (i) a disclosure of the Board’s oversight of ESG issues; (ii) the Board’s ESG management approach and strategy, including the process used to evaluate, prioritize and manage material ESG-related issues (including risks to the issuer’s businesses); and (iii) how the Board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer’s businesses.	Sustainable Development Governance
<b>Reporting principles</b>	A description of, or an explanation on, the application of the reporting principles (materiality, quantitative and consistency) in the preparation of the ESG report.	About this Report — Reporting Standards Stakeholder Engagement, Materiality Assessment
<b>Reporting scope</b>	A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report.	About this Report — Reporting Period and Scope
<b>“Comply or explain” provisions</b>		
<b>Environment</b>		
<b>Aspect A1: Emissions</b>		
<b>General disclosure</b>	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emission
<b>KPI A1.1</b>	The types of emissions and respective emissions data.	Emission — Air emissions
<b>KPI A1.2</b>	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity.	Emission — Greenhouse gas emissions
<b>KPI A1.3</b>	Total hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emission — Waste management
<b>KPI A1.4</b>	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity.	Emission — Waste management
<b>KPI A1.5</b>	Description of emissions target(s) set and steps taken to achieve them.	Emission — Air emissions, Greenhouse gas emissions



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

<b>KPI A1.6</b>	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Emission — Waste management
<b>Aspect A2: Use of Resources</b>		
<b>General disclosure</b>	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources — Energy consumption
<b>KPI A2.1</b>	Direct and/or indirect energy consumption by type in total (kWh in '000s) and intensity.	Use of Resources — Energy consumption
<b>KPI A2.2</b>	Water consumption in total and intensity.	Use of Resources — Water resources management
<b>KPI A2.3</b>	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources — Energy consumption
<b>KPI A2.4</b>	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Use of Resources — Water resources management
<b>KPI A2.5</b>	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Resources — Packaging materials
<b>Aspect A3: The Environment and Natural Resources</b>		
<b>General disclosure</b>	Policies on minimising the issuer's significant impacts on the environment and natural resources.	The Environment and Natural Resources
<b>KPI A3.1</b>	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources
<b>Aspect A4: Climate Change</b>		
<b>General disclosure</b>	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Responding to Climate Change
<b>KPI A4.1</b>	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Responding to Climate Change

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

<b>Social</b>		
<b>Employment and Labour Practices</b>		
<b>Aspect B1: Employment</b>		
<b>General disclosure</b>	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment
<b>KPI B1.1</b>	Total workforce by gender, employment type, age group and geographical region.	Employment — Human resource management
<b>KPI B1.2</b>	Employee turnover rate by gender, age group and geographical region.	Employment — Human resource management
<b>Aspect B2: Health and Safety</b>		
<b>General disclosure</b>	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
<b>KPI B2.1</b>	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Health and Safety
<b>KPI B2.2</b>	Lost days due to work injury	Health and Safety
<b>KPI B2.3</b>	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and Safety
<b>Aspect B3: Development and Training</b>		
<b>General disclosure</b>	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
<b>KPI B3.1</b>	The percentage of employees trained by gender and employee category.	Development and Training
<b>KPI B3.2</b>	The average training hours completed per employee by gender and employee category.	Development and Training

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

<b>Aspect B4: Labour Standards</b>		
<b>General disclosure</b>	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
<b>KPI B4.1</b>	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
<b>KPI B4.2</b>	Description of steps taken to eliminate such practices when discovered.	Labour Standards
<b>Operating Practices</b>		
<b>Aspect B5: Supply Chain Management</b>		
<b>General disclosure</b>	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
<b>KPI B5.1</b>	Number of suppliers by geographical region.	Supply Chain Management
<b>KPI B5.2</b>	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management
<b>KPI B5.3</b>	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
<b>KPI B5.4</b>	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management
<b>Aspect B6: Product Responsibility</b>		
<b>General disclosure</b>	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
<b>KPI B6.1</b>	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility — Product quality
<b>KPI B6.2</b>	Number of products and service related complaints received and how they are dealt with.	Product Responsibility — Customer Service
<b>KPI B6.3</b>	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility — Intellectual property

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

<b>KPI B6.4</b>	Description of quality assurance process and recall procedures.	Product Responsibility — Product quality
<b>KPI B6.5</b>	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility — Information security management
<b>Aspect B7: Anti-corruption</b>		
<b>General disclosure</b>	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
<b>KPI B7.1</b>	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-corruption
<b>KPI B7.2</b>	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Anti-corruption
<b>KPI B7.3</b>	Description of anti-corruption training provided to directors and staff.	Anti-corruption
<b>Community</b>		
<b>Aspect B8: Community Investment</b>		
<b>General disclosure</b>	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
<b>KPI B8.1</b>	Focus areas of contribution.	Community Investment
<b>KPI B8.2</b>	Resources contributed to the focus area.	Community Investment

# REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2022.

## PRINCIPAL ACTIVITIES

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

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

## BUSINESS REVIEW AND OUTLOOK

A review and outlook of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position using financial key performance indicators are provided in the Chairman's Statement and Management Discussion and Analysis respectively from pages 3 to 6 and pages 7 to 18.

## RISK AND UNCERTAINTIES

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

### Economic risks

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

### Operational risks

- Failure to compete in the competitive environment which the Group operated in;
- Unable to keep pace with the technological advances in timely and cost-efficient manner; and
- Failure to attract, train, retain, and motivate highly skilled and qualified managerial, sales, marketing, operating, and technical personnel, the loss of key personnel, or the inability to find additional qualified personnel.

# REPORT OF THE DIRECTORS

## Compliance risks

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

## Financial risks

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

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

## ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

## COMPLIANCE WITH LAWS AND REGULATIONS

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

## REPORT OF THE DIRECTORS

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

### KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

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

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

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 80.

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

### RESERVES

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

The Company's reserves available for distribution represent the share premium, others reserves and retained profits under the Companies Act of the Cayman Islands. The share premium of the Company is available for paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can be distributed out of the share premium, others reserves and retained profits of the Company which in aggregate amounted to approximately RMB598.6 million (2021: RMB530.4 million) as at 31 December 2022.

# REPORT OF THE DIRECTORS

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 147.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

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

## INTEREST-BEARING BORROWINGS

Details of interest-bearing borrowings for the year ended 31 December 2022 are set out in note 33 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

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

## TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the shares of the Company.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares for the year ended 31 December 2022.



# REPORT OF THE DIRECTORS

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, no revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue. The percentage of revenue from transactions with the Group's five largest customers combined is less than 30.

During the year, the aggregate purchases attributable to the Group's five largest suppliers comprised approximately 28.4% of the Group's total cost of sales and the purchases attributable to the Group's largest supplier were approximately 8.0% of the Group's total cost of sales.

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

## DIRECTORS

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

### Executive Directors

Mr. Liu Jun (*Chairman*)  
Mr. Lin Shengxiong (resigned on 1 December 2022)  
Mr. Huang Wanneng (resigned on 1 December 2022)  
Mr. Jiang Shisheng  
Mr. Gao Juwen (appointed on 1 December 2022)

### Independent non-executive Directors

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

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

The Company has received confirmation of independence in respect of the year ended 31 December 2022 from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Up to and as at the date of this report, the Company considers the independent non-executive Directors to be independent.

# REPORT OF THE DIRECTORS

## DIRECTORS' SERVICE CONTRACTS

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

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

## TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed under the heading "Related Party Transactions" in note 42 to the consolidated financial statements in this annual report, no transactions, arrangements and contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly and required to be disclosed under the Listing Rules and the companies (Directors' Report) Regulation (cap. 622D), subsisted at the end of the year or at any time during the year.

There were no contracts of significance (including the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries) between the Company, or one of the subsidiaries, and a controlling Shareholders or any of its subsidiaries for the year ended 31 December 2022.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company had engaged in any business or had any interest in business which competes or may constitutes competition directly or indirectly with the business of the Group for the year ended 31 December 2022.

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

Following the resignations of both Mr. Lin Shengxiong and Mr. Huang Wanneng, the former executive Directors, on 1 December 2022, as at 31 December 2022, there were no interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

The Company adopted share option scheme on 8 April 2010, and it had been expired since 7 April 2020. No new share scheme was introduced up to the date of this annual report. As at 31 December 2022, there were no outstanding share options granted, exercised, lapsed and cancelled.

# REPORT OF THE DIRECTORS

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2022 was the Company, its subsidiaries or its associate a party to any arrangement to enable the Directors and chief executives of the Company or their spouses or children under the age of 18, to acquire benefits by means of acquisition of shares in, or debentures of the Company or its associated corporation.

As at 31 December 2022, none of the Directors or the chief executive of the Company had or was deemed to have any interests in or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2022, the following persons or corporations, other than the interest disclosed above in respect of the directors, interest in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interests in shares and short positions required to be kept under Section 336 of Part XV of the SFO:

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

# REPORT OF THE DIRECTORS

## Notes:

1. As at 31 December 2022, Mr. Lin Shengxiong through his 100% equity interest in Hopeland International Holdings Company Limited held 410,886,000 shares of the Company, representing approximately 48.19% of the entire issued share capital of the Company. Mr. Lin Shengxiong, is a former executive Director.
2. As at 31 December 2022, Ms. Lin Hongting, the spouse of Mr. Lin Shengxiong is deemed to be interested in 410,886,000 shares of the Company, representing approximately 48.19% of the entire issued share capital of the Company.
3. Glory Bright Investments Enterprise Limited is beneficially owned by Mr. Lin Wanpeng. As at 31 December 2022, Mr. Lin Wanpeng is deemed to be interested in 59,011,000 shares of the Company, representing approximately 6.92% of the entire issued share capital of the Company.
4. As at 31 December 2022, Ms. Wang Huiqing, the spouse of Mr. Lin Wanpeng is deemed to be interested in 59,011,000 shares of the Company, representing approximately 6.92% of the entire issued share capital of the Company.

As at 31 December 2022, save as disclosed above, so far as was known to the Directors, no other person (other than the Directors or chief executive of the Company) had any interests or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as notified to the Company.

## RELATED PARTY TRANSACTIONS

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

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group (other than contracts of service with Director or any person engaged in full time employment of the Group) were entered into or existed during the year ended 31 December 2022.

## PERMITTED INDEMNITY PROVISION

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

# REPORT OF THE DIRECTORS

## EMOLUMENT POLICY

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

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

Please refer to Note 14 to the consolidated financial statements of this annual report for more details regarding the emoluments of the Directors and the senior management of the Company for the year ended 31 December 2022.

## CHARITABLE CONTRIBUTIONS AND DONATIONS

During the year, the Group donated a total amount of approximately RMB248,000 for charitable purpose (2021: RMB800,000).

## SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float as at the date of this annual report.

## IMPORTANT EVENTS SINCE 31 DECEMBER 2022

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

## AUDITORS

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

There was no change in the auditor of the Company in any of the preceding three years.

## CONTINUED SUSPENSION IN TRADING

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

On Behalf of the Board

Mr. Liu Jun  
Chairman

Hong Kong, 27 March 2023

# INDEPENDENT AUDITOR'S REPORT



**中汇**  
**ZHONGHUI**

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

## OPINION

We have audited the consolidated financial statements of China Longevity Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 80 to 146, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

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

### **Property, plant and equipment**

Refer to Note 18 to the consolidated financial statements

The Group measured its buildings and plant and machinery at revaluation model, which are significant to our audit because the balance of buildings and plant and machinery included in property, plant and equipment of RMB312,899,000 and RMB136,067,000 as at 31 December 2022 respectively are material to the consolidated financial statements. In addition, the Group's fair value measurement involves application of judgement and is based on several key inputs that require significant management assumptions, estimations and other inputs.

Our audit procedures included, among others:

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

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

# INDEPENDENT AUDITOR'S REPORT

## Trade and bills receivables

Refer to Note 26 to the consolidated financial statements

The Group tested the amount of trade and bills receivables for impairment. This impairment test is significant to our audit because the balance of trade and bills receivables of RMB181,183,000 as at 31 December 2022 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgment and is based on estimates.

Our audit procedures included, among others:

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

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

## OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.





# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

<https://www.hkicpa.org.hk/en/Standards-setting/Standards/Our-views/auditre>

This description forms part of our auditor's report.

### **ZHONGHUI ANDA CPA Limited**

*Certified Public Accountants*

### **Fong Tak Ching**

*Audit Engagement Director*

Practising Certificate Number P06353

Hong Kong, 27 March 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
<b>REVENUE</b>	9	<b>926,621</b>	1,441,015
Cost of sales		<b>(780,301)</b>	(1,180,547)
<b>GROSS PROFIT</b>		<b>146,320</b>	260,468
Other income and gains	10	<b>23,822</b>	10,941
Selling and distribution costs		<b>(31,579)</b>	(42,319)
Administrative expenses		<b>(77,116)</b>	(92,877)
Share of loss of an associate		<b>(65)</b>	(11)
Other expenses		<b>(1,996)</b>	(6,518)
<b>PROFIT FROM OPERATIONS</b>		<b>59,386</b>	129,684
Fair value loss on investment properties		<b>(566)</b>	(1,004)
Gain on revaluation of property, plant and equipment		<b>4,426</b>	5,594
Loss on fair value changes at financial assets at fair value through profit or loss		<b>(20)</b>	(40)
Impairment of inventories, net		<b>(1,274)</b>	(745)
Finance costs	11	<b>(13,094)</b>	(15,673)
<b>PROFIT BEFORE TAX</b>	12	<b>48,858</b>	117,816
Income tax expense	13	<b>(4,339)</b>	(11,631)
<b>PROFIT FOR THE YEAR</b>		<b>44,519</b>	106,185
<b>Other comprehensive income/(expense) after tax:</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Exchange differences on translation of the Company		<b>3,616</b>	1,666
Gain on revaluation of property, plant and equipment		<b>26,734</b>	27,682
Deferred tax effect arising on revaluation of property, plant and equipment		<b>(4,024)</b>	(4,152)
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of the Company		<b>(4,346)</b>	(1,420)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>66,499</b>	129,961

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 31 December 2022

	Notes	2022 <b>RMB'000</b>	2021 <b>RMB'000</b>
<b>PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:</b>			
Owners of the Company		<b>46,188</b>	106,932
Non-controlling interests		<b>(1,669)</b>	(747)
		<b>44,519</b>	106,185
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>			
Owners of the Company		<b>68,168</b>	130,708
Non-controlling interests		<b>(1,669)</b>	(747)
		<b>66,499</b>	129,961
<b>EARNINGS PER SHARE (RMB cents)</b>			
	17		
– Basic		<b>5.42</b>	12.54
– Diluted		<b>5.42</b>	12.54

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	18	589,760	458,525
Right-of-use assets	19	91,313	90,178
Investment properties	20	34,800	35,366
Intangible assets	21	1,263	684
Interest in an associate	22	8,872	1,361
Deposits paid for acquisition of property, plant and equipment		33,994	14,560
Equity investments at fair value through other comprehensive income	23	4,140	4,140
Deferred tax assets	24	2,740	2,797
<b>Total non-current assets</b>		<b>766,882</b>	607,611
<b>Current assets</b>			
Inventories	25	181,750	203,775
Trade and bills receivables	26	181,183	327,857
Prepayments, deposits and other receivables	27	58,749	35,495
Pledged bank deposits	28	55,049	138,658
Cash and cash equivalents	28	90,583	77,994
<b>Total current assets</b>		<b>567,314</b>	783,779
<b>Current liabilities</b>			
Trade and bills payables	29	276,138	486,664
Lease liabilities	30	2,222	3,198
Contract liabilities	31	3,230	4,709
Other payables and accruals	32	42,620	52,003
Interest-bearing borrowings	33	145,418	216,275
Deferred income	34	380	200
Due to a director	35	1,403	9,050
Tax payable		7,682	12,633
<b>Total current liabilities</b>		<b>479,093</b>	784,732
<b>Net current assets/(liabilities)</b>		<b>88,221</b>	(953)
<b>Total assets less current liabilities</b>		<b>855,103</b>	606,658

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
<b>Non-current liabilities</b>			
Interest-bearing borrowings	33	181,962	33,429
Lease liabilities	30	2,899	2,552
Deferred income	34	10,378	1,650
Deferred tax liabilities	24	13,938	9,296
<b>Total non-current liabilities</b>		<b>209,177</b>	46,927
<b>NET ASSETS</b>		<b>645,926</b>	559,731
<b>Capital and reserves</b>			
Issued capital	36	747	747
Reserves		598,595	530,427
		599,342	531,174
<b>Non-controlling interests</b>		<b>46,584</b>	28,557
<b>TOTAL EQUITY</b>		<b>645,926</b>	559,731

The consolidated financial statements on pages 80 to 146 were approved and authorised for issue by the board of directors on 27 March, 2023 and are signed on its behalf by:

Approved by:

**Liu Jun**  
Director

**Gao Juwen**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Issued capital	Capital surplus/ share premium*	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Revaluation reserve*	Accumulated losses*	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	747	566,403	28,994	133,336	(9,011)	49,411	(369,414)	400,466	-	400,466
Total comprehensive income/ (expenses) for the year	-	-	-	-	246	23,530	106,932	130,708	(747)	129,961
Transfer	-	-	-	-	-	(6)	6	-	-	-
Appropriation to statutory surplus reserve	-	-	-	12,182	-	-	(12,182)	-	-	-
Capital contribution by a non-controlling shareholder	-	-	-	-	-	-	-	-	29,304	29,304
<b>At 31 December 2021</b>	<b>747</b>	<b>566,403</b>	<b>28,994</b>	<b>145,518</b>	<b>(8,765)</b>	<b>72,935</b>	<b>(274,658)</b>	<b>531,174</b>	<b>28,557</b>	<b>559,731</b>
At 1 January 2022	747	566,403	28,994	145,518	(8,765)	72,935	(274,658)	531,174	28,557	559,731
Total comprehensive income/ (expenses) for the year	-	-	-	-	(730)	22,710	46,188	68,168	(1,669)	66,499
Transfer	-	-	-	-	-	(15)	15	-	-	-
Appropriation to statutory surplus reserve	-	-	-	5,087	-	-	(5,087)	-	-	-
Capital contribution by a non-controlling shareholder	-	-	-	-	-	-	-	-	19,696	19,696
<b>At 31 December 2022</b>	<b>747</b>	<b>566,403</b>	<b>28,994</b>	<b>150,605</b>	<b>(9,495)</b>	<b>95,630</b>	<b>(233,542)</b>	<b>599,342</b>	<b>46,584</b>	<b>645,926</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	<b>48,858</b>	117,816
Adjustments for:		
Finance costs	<b>13,094</b>	15,673
Interest income	<b>(1,467)</b>	(800)
Depreciation of property, plant and equipment	<b>52,142</b>	54,918
Depreciation on right-of-use assets	<b>4,122</b>	2,868
Net (gain)/loss on disposals of property, plant and equipment	<b>(10)</b>	952
Written-off of property, plant and equipment	<b>66</b>	1,762
Amortisation of intangible assets	<b>10</b>	–
Reversal of impairment of trade receivables, net	<b>(163)</b>	(1,569)
Release of deferred income	<b>(380)</b>	(150)
Fair value loss on investment properties	<b>566</b>	1,004
Gain on revaluation of property, plant and equipment	<b>(4,426)</b>	(5,594)
Lease modification	<b>(33)</b>	(20)
Gain on lease termination	<b>(75)</b>	(67)
Share of loss of an associate	<b>65</b>	11
Impairment of inventories, net	<b>1,274</b>	745
Dividend income from equity investments at fair value through other comprehensive income	<b>(335)</b>	(217)
Operating profit before working capital changes	<b>113,308</b>	187,332
Change in inventories	<b>20,751</b>	(58,454)
Change in trade and bills receivables	<b>146,837</b>	(135,999)
Change in prepayments, deposits and other receivables	<b>(23,187)</b>	(9,436)
Change in trade and bills payables	<b>(210,526)</b>	197,667
Change in contract liabilities	<b>(1,479)</b>	992
Change in other payables and accruals	<b>(11,234)</b>	2,138
Change in deferred income	<b>9,288</b>	2,000
Cash generated from operations	<b>43,758</b>	186,240
Income tax paid	<b>(8,614)</b>	(8,729)
<b>Net cash generated from operating activities</b>	<b>35,144</b>	177,511

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(143,728)	(57,521)
Additions of intangible assets	(589)	–
Proceeds from disposals of property, plant and equipment	745	39
Capital injection to an associate	(7,576)	(1,372)
Acquisition of land use right	(2,213)	(55,826)
Increase in pledged bank deposits	83,609	(79,728)
Payment of deposits for acquisition of property, plant and equipment	(27,149)	(8,361)
Interest received	1,467	800
Dividend received	335	217
<b>Net cash used in investing activities</b>	<b>(95,099)</b>	<b>(201,752)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New interest-bearing borrowings	361,986	224,928
Contribution from a non-controlling shareholder	19,696	29,304
Repayment of interest-bearing borrowings	(284,310)	(175,204)
Repayment of lease liabilities	(4,016)	(2,457)
(Repayment to)/advance from directors	(7,647)	5,950
Interest paid	(12,643)	(15,311)
<b>Net cash generated from financing activities</b>	<b>73,066</b>	<b>67,210</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of year	77,994	34,899
Effect on exchange rate changes	(522)	126
<b>Cash and cash equivalents at end of year</b>	<b>90,583</b>	<b>77,994</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	90,583	77,994



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 1. GENERAL INFORMATION

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

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

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

## 2. BASIS OF PREPARATION

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

### Consolidation

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Consolidation** *(continued)*

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

### **Foreign currency translation**

#### **(a) Functional and presentation currency**

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

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

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

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

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

#### **(c) Translation on consolidation**

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currency translation *(continued)*

#### (c) Translation on consolidation *(continued)*

- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the exchange fluctuation reserve.

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

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

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

### Property, plant and equipment

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investment properties**

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

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

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

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

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

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

### **Building use right**

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

### **Software**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

#### ***Patent and trademark***

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

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

#### ***Research and development costs***

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

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

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

#### **Financial assets**

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial assets *(continued)*

#### **(i) Financial assets at amortised cost**

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

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

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

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

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

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

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

### **Loss allowances for expected credit losses**

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Loss allowances for expected credit losses (continued)

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

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

### Leases

#### The Group as lessee

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

Machinery	10%
Land and buildings	2% – 60%

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

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

#### The Group as lessor

##### Operating leases

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Inventories**

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

### **Recognition and derecognition of financial instruments**

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

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

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

### **Cash and cash equivalents**

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

### **Financial liabilities and equity instruments**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Borrowings**

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

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

### **Trade and other payables**

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

### **Equity instruments**

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

### **Government grants**

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

### **Non-current assets held for sale**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue from contracts with customers

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

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

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

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

### Other income

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Employee benefits**

#### ***Pension schemes***

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

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

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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

#### **Taxation**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Taxation** *(continued)*

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except investments, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Provisions and contingent liabilities**

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Dividends**

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

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

### **Events after the reporting period**

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

## 5. CRITICAL JUDGEMENT AND KEY ESTIMATES

### **Critical judgements in applying accounting policies**

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

### ***Going concern basis***

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the controlling shareholder at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2.

### **Key sources of estimation uncertainty**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

### **Key sources of estimation uncertainty *(continued)***

#### **(a) Impairment of property, plant and equipment**

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

#### **(b) Impairment of trade and other receivables**

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

#### **(c) Impairment of inventories**

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

#### **(d) Useful lives of property, plant and equipment**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 6. FINANCIAL RISK MANAGEMENT

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

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

### Foreign currency risk

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

### Interest rate risk

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

At 31 December 2022, if interest rates had been 100 basis points higher/lower with all other variables held constant, profit after tax for the year would have been RMB608,000 (2021: RMB806,000) higher/lower, arising mainly as a result of higher/lower interest expense on bank borrowings and higher/lower interest income on bank balances.

### Credit risk

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### **Credit risk** *(continued)*

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

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

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

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

### **(i) Trade and other receivables**

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At 31 December 2022, the Group has certain concentration of credit risk as approximately RMB29,107,000 (2021: RMB55,883,000) out of the total trade receivables of approximately RMB180,945,000 (2021: RMB327,457,000) was due from the Group's largest debtor.

### **(ii) Deposits with financial institutions**

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

At 31 December 2022 and 2021, the Group has low concentration of credit risk as the deposits are placed in various financial institutions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 6. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity risk

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

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

#### At 31 December 2022

	Within one year or on demand RMB'000	Two to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade and bills payables	276,138	–	–	276,138
Other payables and accruals	42,620	–	–	42,620
Due to a director	1,403	–	–	1,403
Lease liabilities	2,222	2,899	–	5,121
Future finance charges	193	233	–	426
Principal portion of borrowings	145,418	181,962	–	327,380
Interest portion of borrowings	10,917	19,118	408	30,443
	<b>478,911</b>	<b>204,212</b>	<b>408</b>	<b>683,531</b>

#### At 31 December 2021

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 6. FINANCIAL RISK MANAGEMENT (continued)

### Categories of financial instruments

	2022 RMB'000	2021 RMB'000
<b>Financial assets:</b>		
Equity investments at fair value through other comprehensive income	4,140	4,140
Financial assets at amortised cost (including cash and cash equivalents)		
Trade and bills receivables	181,183	327,857
Financial assets included in prepayments, deposits and other receivables	20,070	10,337
Pledged bank deposits	55,049	138,658
Cash and cash equivalents	90,583	77,994
	<b>351,025</b>	<b>558,986</b>

	2022 RMB'000	2021 RMB'000
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost:		
Trade and bills payables	276,138	486,664
Financial liabilities included in other payables and accruals	42,620	52,003
Lease liabilities	5,121	5,750
Due to a director	1,403	9,050
Borrowings	327,380	249,704
	<b>652,662</b>	<b>803,171</b>

### Fair value

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. FAIR VALUE MEASUREMENTS

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

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

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

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

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

### (a) Disclosures of level in fair value hierarchy at 31 December 2022 and 2021:

#### At 31 December 2022

Description	Fair value measurement using:			Total
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	2022 RMB'000
Recurring fair value measurements:				
Investment properties				
Commercial – PRC	–	–	34,800	34,800
Property, plant and equipment				
Buildings – PRC	–	–	312,899	312,899
Plant and machinery – PRC	–	–	136,067	136,067
	–	–	483,766	483,766

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. FAIR VALUE MEASUREMENTS (continued)

### (a) Disclosures of level in fair value hierarchy at 31 December 2022 and 2021: (continued)

At 31 December 2021

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

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

Description	Property, plant and equipment	Investment properties	Total
	2022 RMB'000	2022 RMB'000	2022 RMB'000
At 1 January 2022	429,440	35,366	464,806
Addition	5,691	–	5,691
Transfer from construction in progress	31,160	–	31,160
Depreciation	(47,743)	–	(47,743)
Disposal/written off	(742)	–	(742)
Total gains recognised in other comprehensive income	26,734	–	26,734
Gain/(loss) on revaluation recognised in profit and loss <sup>(#)</sup>	4,426	(566)	3,860
At 31 December 2022	448,966	34,800	483,766
# Include gain/(loss) for assets held at end of reporting period	4,426	(566)	3,860



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. FAIR VALUE MEASUREMENTS *(continued)*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. FAIR VALUE MEASUREMENTS (continued)

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

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

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

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

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

### Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2022 RMB'000
Investment properties An Industrial Complex situated at No. 63 Huli Yuan, Tongan District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB10 per month	Increase	13,300
Investment properties An office situated at No. 1 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB65 per month	Increase	20,080

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. FAIR VALUE MEASUREMENTS (continued)

### Level 3 fair value measurements (continued)

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2022 RMB'000
Investment properties An Industrial Complex situated at Gangqian Road, Minhou District, Fuzhou City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB5.42 per month	Increase	224
Investment properties An Industrial Complex situated at No.88 Hankou North Avenue, Huang Pi District, Wuhan City, Hubei Province, PRC	Income approach	Rental income per square meter: RMB30per month	Increase	1,196
Buildings Car parks situated at No. 15 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Market comparable approach	Price per unit: RMB163,833 per unit	Increase	1,966
Buildings An office situated at No. 18 North Second Ring Middle Huda Road, Gu Lou District, Fuzhou City , Fujian Province, PRC	Market comparable approach	Price per square meter: RMB29,053	Increase	27,393

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. FAIR VALUE MEASUREMENTS (continued)

### Level 3 fair value measurements (continued)

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2022 RMB'000
Buildings	Depreciated replacement cost	Current cost of replacing the improvement	Increase	283,540
Plant and machinery	Depreciated replacement cost	Market value for similar assets	Increase	136,067

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2021 RMB'000
Investment properties An Industrial Complex situated at No. 63 Huli Yuan, Tongan District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB10 per month	Increase	13,640
Investment properties An office situated at No. 1 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB65 per month	Increase	20,520
Investment properties An Industrial Complex situated at Gangqian Road, Minhou District, Fuzhou City, Fujian Province, PRC	Income approach	Rental income per square meter: RMB5.42 per month	Increase	430

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. FAIR VALUE MEASUREMENTS (continued)

### Level 3 fair value measurements (continued)

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Fair value 2021 RMB'000
Investment properties An Industrial Complex situated at No.88 Hankou North Avenue, Huang Pi District, Wuhan City, Hubei Province, PRC	Income approach	Rental income per square meter: RMB27per month	Increase	776
Buildings Car parks situated at No. 15 Jinzhong Road, Huli District, Xiamen City, Fujian Province, PRC	Market comparable approach	Price per unit: RMB160,458 per unit	Increase	1,925
Buildings An office situated at No. 18 North Second Ring Middle Huda Road, Gu Lou District, Fuzhou City , Fujian Province, PRC	Market comparable approach	Price per square meter: RMB29,020	Increase	25,810
Buildings	Depreciated replacement cost	Current cost of replacing the improvement	Increase	270,827
Plant and machinery	Depreciated replacement cost	Market value for similar assets	Increase	130,878

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 8. SEGMENT INFORMATION

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

### Geographical information

	Revenue from external customers		Non-current assets	
	Year ended 31 December		As at 31 December	
	2022	2021	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC	<b>622,668</b>	1,135,889	<b>760,002</b>	600,674
Others	<b>303,953</b>	305,126	–	–
	<b>926,621</b>	1,441,015	<b>760,002</b>	600,674

In presenting the geographical information, the revenue information is based on the locations of the customers while the non-current assets information is based on the location of assets and excludes equity investments at fair value through other comprehensive income and deferred tax assets. No revenue from transactions with a single country other than PRC amounted to 10% or more of the Group's total sales for the year (2021: Nil).

### Information about major customers

No revenue from transactions with a single customer amounted to 10% or more of the Group's total sales for the year ended 31 December 2022 (2021: contributing over 10% of the total revenue of the Group are as follows):

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	<b>N/A</b>	145,920

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 9. REVENUE

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Sales of goods	<b>926,621</b>	1,441,015

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

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

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

### Disaggregation of revenue from contracts with customers:

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>Geographical markets</b>		
PRC	<b>622,668</b>	1,135,889
United States	<b>56,539</b>	68,017
Russia	<b>40,749</b>	51,846
Others	<b>206,665</b>	185,263
Total	<b>926,621</b>	1,441,015

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 9. REVENUE (continued)

	2022 RMB'000	2021 RMB'000
<b>Major products</b>		
Material products	841,648	1,347,962
Building Material Products	84,973	93,053
Total	<b>926,621</b>	<b>1,441,015</b>

The revenue was recognised at a point in time.

## 10. OTHER INCOME AND GAINS

	2022 RMB'000	2021 RMB'000
Interest income	1,467	800
Government subsidies (note)	7,518	3,827
Gross rental income	3,842	3,396
Dividend income from equity investments at fair value through other comprehensive income	335	217
Reversal of allowance for receivables, net	163	1,569
Exchange gain, net	6,983	–
Sundry income	3,514	1,132
	<b>23,822</b>	<b>10,941</b>

Note: Government subsidies are received and used for development of new products, implementation of environmental protection development programmes and acquire long-term assets. During the years ended 31 December 2022 and 2021, the Group recognized the subsidies with no other specific conditions attached upon receipt, and the subsidies related to assets on systematic basis over the useful life of the assets.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 11. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Lease interest	451	367
Interest on bank loans	8,489	8,941
Interest on other loans	8,725	7,415
Total borrowing cost	<b>17,665</b>	16,723
Less: interests capitalised	<b>(4,571)</b>	(1,050)
	<b>13,094</b>	15,673

## 12. PROFIT BEFORE TAX

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

	2022 RMB'000	2021 RMB'000
Cost of inventories sold*	780,301	1,180,547
Depreciation of property, plant and equipment	52,142	54,918
Depreciation on right-of-use assets	4,122	2,868
Amortisation of intangible assets	10	–
Net (gain)/loss on disposals of property, plant and equipment	(10)	952
Written-off of property, plant and equipment	66	1,762
Staff costs (including directors' remuneration) (note 14):		
Wages and salaries	47,469	44,922
Retirement benefit scheme contributions	2,257	2,125
Staff welfare expenses	2,793	2,784
	<b>52,519</b>	49,831
Research and development costs	41,166	59,976
Exchange (gain)/loss, net	(6,983)	1,795
Fair value loss on investment properties	566	1,004
Gain on revaluation of property, plant and equipment	(4,426)	(5,594)
Reversal of loss allowance of trade receivables, net	(163)	(1,569)
Impairment of inventories, net	1,274	745
Auditors' remuneration	1,297	1,312

\* Cost of inventories sold includes RMB72,054,000 (2021: RMB70,003,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 13. INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Current tax – the PRC		
Charge for the year	3,884	10,981
Over-provision in prior years	(220)	(933)
Deferred tax ( <i>note 24</i> )	675	1,583
	<b>4,339</b>	11,631

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

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

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has to be provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong for the years ended 31 December 2022 and 2021.

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

# The English name is for identification only

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

	2022 RMB'000	2021 RMB'000
Profit before tax	48,858	117,816
Tax at the applicable tax rate of 25% (2021: 25%)	12,214	29,454
Lower tax rate for specific province or enacted by local authority	(5,683)	(13,556)
Tax effect of income not taxable and expenses not deductible	(1,972)	(3,334)
Over-provision in prior years	(220)	(933)
Income tax expense	<b>4,339</b>	11,631

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

		For the year ended 31 December 2022			
		Fees	Salaries, and benefits allowances in-kind	Retirement benefit scheme contributions	Total remuneration
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Mr. Lin	(i)	–	1,394	55	1,449
Mr. Huang Wanneng	(ii)	–	882	66	948
Mr. Jiang Shisheng		–	394	40	434
Mr. Liu Jun (Chairman)		–	425	11	436
Mr. Gao Juwen	(iii)	–	129	12	141
		–	3,224	184	3,408
<b>Independent non-executive directors</b>					
Mr. Lau Chun Pong		199	–	10	209
Mr. Lu Jiayu		90	–	–	90
Ms. Jiang Ping		60	–	–	60
		349	–	10	359
<b>Subtotal for directors' emoluments</b>		349	3,224	194	3,767
<b>Senior management</b>		–	2,212	156	2,368
<b>Total</b>		349	5,436	350	6,135

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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

Note:

- (i) Mr. Lin resigned as an executive director and the chairman of the Board with effect from 1 December 2022.
- (ii) Mr. Huang Wanneng resigned as an executive director with effect from 1 December 2022.
- (iii) Mr. Gao Juwen was appointed as an executive director with effect from 1 December 2022.

For the years ended 31 December 2022 and 2021, no Director has waived or agreed to waive any emoluments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals in the Group during the year included 2 (2021: 3) directors and 2 former directors, details of whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2021: 2) highest paid individual are set out below:

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Salaries and allowances	<b>498</b>	1,013
Retirement benefit scheme contributions	<b>15</b>	41
	<b>513</b>	1,054

The emoluments of the individual fall within the following band:

	<b>Number of individuals</b>	
	<b>2022</b>	2021
Nil – HK\$1,000,000	<b>1</b>	2

During the years ended 31 December 2022 and 2021, no emoluments was paid or payable to the five highest paid individuals (including Directors and other employees) as a performance related bonus, an inducement to join the Group or as a compensation for loss of office.

## 16. DIVIDEND

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

## 17. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

### Earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately RMB46,188,000 (2021: RMB106,932,000) and the weighted average number of approximately 852,612,000 (2021: 852,612,000) ordinary shares in issue during the year.

### Diluted earning per share

Diluted earning per share for the years ended 31 December 2022 and 2021 is the same as the basic earning per share as the Company did not have any dilutive potential ordinary shares during the years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost or valuation</b>							
At 1 January 2021	290,437	102,380	4,696	2,294	6,094	20,710	426,611
Additions	5,864	27,452	5,900	415	1,444	20,278	61,353
Disposals	(103)	-	-	(8)	(288)	(596)	(995)
Written off	-	(2,077)	-	-	(101)	-	(2,178)
Transfer from right-of-use assets	-	1,402	-	-	-	-	1,402
Transfer from CIP	4,817	17,312	1,165	-	-	(23,294)	-
Revaluation	(2,453)	(15,591)	-	-	-	-	(18,044)
At 31 December 2021 and 1 January 2022	<b>298,562</b>	<b>130,878</b>	<b>11,761</b>	<b>2,701</b>	<b>7,149</b>	<b>17,098</b>	<b>468,149</b>
Additions	<b>1,613</b>	<b>4,078</b>	<b>2,582</b>	<b>409</b>	<b>378</b>	<b>143,958</b>	<b>153,018</b>
Disposals	-	(766)	-	-	(165)	-	(931)
Written off	-	(18)	-	-	-	(48)	(66)
Transfer from CIP	<b>9,602</b>	<b>21,558</b>	<b>5,177</b>	<b>123</b>	-	<b>(36,460)</b>	-
Revaluation	<b>3,122</b>	<b>(19,663)</b>	-	-	-	-	<b>(16,541)</b>
At 31 December 2022	<b>312,899</b>	<b>136,067</b>	<b>19,520</b>	<b>3,233</b>	<b>7,362</b>	<b>124,548</b>	<b>603,629</b>
<b>Accumulated depreciation and impairment</b>							
At 1 January 2021	-	-	1,750	1,619	2,867	-	6,236
Charge for the year	25,008	26,133	3,072	134	571	-	54,918
Disposals	(4)	-	-	-	-	-	(4)
Written off	-	(27)	-	(7)	(382)	-	(416)
Transfer from right-of-use assets	-	210	-	-	-	-	210
Write back on revaluation	(25,004)	(26,316)	-	-	-	-	(51,320)
At 31 December 2021 and 1 January 2022	-	-	<b>4,822</b>	<b>1,746</b>	<b>3,056</b>	-	<b>9,624</b>
Charge for the year	<b>26,058</b>	<b>21,685</b>	<b>3,133</b>	<b>245</b>	<b>1,021</b>	-	<b>52,142</b>
Disposals	-	(42)	-	-	(154)	-	(196)
Write back on revaluation	<b>(26,058)</b>	<b>(21,643)</b>	-	-	-	-	<b>(47,701)</b>
At 31 December 2022	-	-	<b>7,955</b>	<b>1,991</b>	<b>3,923</b>	-	<b>13,869</b>
<b>Carrying amount</b>							
At 31 December 2022	<b>312,899</b>	<b>136,067</b>	<b>11,565</b>	<b>1,242</b>	<b>3,439</b>	<b>124,548</b>	<b>589,760</b>
At 31 December 2021	<b>298,562</b>	<b>130,878</b>	<b>6,939</b>	<b>955</b>	<b>4,093</b>	<b>17,098</b>	<b>458,525</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

At 31 December 2022, certain buildings and plant and machinery with an aggregate carrying amount of approximately RMB268,743,000 (2021: RMB299,948,000) were pledged to secure bank loan facilities granted to the Group (note 33).

The Group's buildings, plant and machinery were revalued at 31 December 2022 on the open market value basis by reference to market evidence of recent transactions for similar assets and net replacement cost by 福建聯合中和資產評估房地產估價有限公司, an independent professional valuer.

## 19. LEASES AND RIGHT-OF-USE ASSETS

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Disclosures of lease-related items:</b>		
At 31 December		
Right-of-use assets		
– Machinery	4,845	5,385
– Land and buildings	86,468	84,793
	<b>91,313</b>	90,178
Lease commitments of short-term leases	582	179
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
– Within 1 year	2,415	3,529
– Between 2 and 5 years	3,132	2,665
	<b>5,547</b>	6,194
Depreciation charge of right-of-use assets		
– Machinery	539	279
– Land and buildings	3,583	2,589
	<b>4,122</b>	2,868
Lease interests	451	367
Expenses related to short-term leases	974	620
Total cash outflow for leases	<b>(4,016)</b>	(2,462)
Additions to right-of-use assets	<b>6,503</b>	61,547

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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

At 31 December 2022, leasehold lands and machinery with carrying amounts of approximately RMB68,460,000 and RMB4,845,000 respectively (2021: RMB15,214,000 and RMB5,385,000 respectively) were pledged to secure bank loan facilities and finance lease agreements granted to the Group (note 33).

## 20. INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
At beginning of year	35,366	36,370
Fair value loss on investment properties	(566)	(1,004)
At end of year	<b>34,800</b>	35,366

The estimated aggregate fair value of the investment properties as at 31 December 2022 was approximately RMB34,800,000 (2021: RMB35,366,000), which has been arrived at on the basis of valuations carried out by 福建華成房地產土地資產評估有限公司 and 福建聯合中和資產評估房地產估價有限公司, independent professional valuers.

At 31 December 2022, investment properties with carrying amount of approximately RMB20,080,000 (2021:RMB20,520,000) were pledged to secure bank loan facilities granted to the Group (note 33).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 21. INTANGIBLE ASSETS

	Software <i>RMB'000</i>	Patent <i>RMB'000</i>	Trademark <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost</b>				
At 1 January 2021, 31 December 2021 and 1 January 2022	2,114	50	684	2,848
Additions	589	–	–	589
At 31 December 2022	2,703	50	684	3,437
<b>Accumulated amortisation</b>				
At 1 January 2021, 31 December 2021 and 1 January 2022	2,114	50	–	2,164
Charge for the year	10	–	–	10
At 31 December 2022	2,124	50	–	2,174
<b>Carrying amount</b>				
At 31 December 2022	579	–	684	1,263
At 31 December 2021	–	–	684	684

## 22. INTEREST IN AN ASSOCIATE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of investments in an associate		
– Unlisted	8,948	1,372
Share of losses	(76)	(11)
	8,872	1,361

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 22. INTEREST IN AN ASSOCIATE (continued)

Particulars of the associate as at 31 December 2022 and 2021 are as follows:

Name	Place of incorporation and operation	Particulars of issued and paid up capital		Effective ownership interest indirectly held by the Group		Proportion of voting power held	Principal activity
		2022	2021	2022	2021		
Fujian Siqi New Materials Co., Ltd <sup>#</sup> ("Fujian Siqi New Materials")	PRC	RMB18,260,000	RMB2,800,000	49%	49%	49%	Manufacturing and selling materials

<sup>#</sup> The English names are for identification only

Note:

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

### Summarised financial information of the associate

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

#### Fujian Siqi New Materials

	2022 RMB'000	2021 RMB'000
Current assets	2,440	2,777
Non-current assets	15,673	–
Current liabilities	(8)	–
	<b>18,105</b>	<b>2,777</b>

The above amounts of assets include the following:

Cash and cash equivalents	403	67
Revenue	–	–
Loss for the year	(131)	(23)
<b>Carrying amount of the Group's interest in Fujian Siqi New Materials</b>	<b>8,872</b>	<b>1,361</b>

During the year, the share of loss of an associate and other comprehensive expenses of the associate by the Group was RMB65,000 (2021: RMB11,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Unlisted equity investment in the PRC	4,140	4,140

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

## 24. DEFERRED TAX

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

	Fair value change of investment properties RMB'000	Accrued social fund RMB'000	Accrued sales rebate RMB'000	Unapproved accelerated depreciation and amortisation and impairment RMB'000	Others RMB'000	Total RMB'000
<b>Deferred tax assets</b>						
At 1 January 2021	925	612	1,500	407	–	3,444
Deferred tax (charged)/credited to profit or loss during the year (note 13)	(925)	–	–	–	278	(647)
At 31 December 2021 and 1 January 2022	–	612	1,500	407	278	2,797
Deferred tax charged to profit or loss during the year (note 13)	–	–	–	–	(57)	(57)
At 31 December 2022	–	612	1,500	407	221	2,740

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 24. DEFERRED TAX (continued)

### Deferred tax liabilities

	Fair value change of investment properties <i>RMB'000</i>	Fair value change of revaluation of property, plant and equipment <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021	–	4,100	108	4,208
Deferred tax charged to profit or loss during the year ( <i>note 13</i> )	–	806	130	936
Deferred tax charged to the consolidated other comprehensive income after tax during the year	–	4,152	–	4,152
At 31 December 2021 and 1 January 2022	–	9,058	238	9,296
Deferred tax charged/(credited) to profit or loss during the year ( <i>note 13</i> )	32	690	(104)	618
Deferred tax charged to the consolidated other comprehensive income after tax during the year	–	4,024	–	4,024
At 31 December 2022	32	13,772	134	13,938

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 24. DEFERRED TAX (continued)

### Deferred tax liabilities (continued)

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

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Tax losses	<b>7,951</b>	8,074

The Group also has tax losses arising in the PRC of approximately RMB7,951,000 (2021: RMB8,074,000) that will expire in one to five years for offsetting against future taxable profits.

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

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

## 25. INVENTORIES

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Raw materials	<b>86,528</b>	110,642
Work in progress	<b>19,831</b>	21,332
Finished goods	<b>75,391</b>	71,801
	<b>181,750</b>	203,775

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 26. TRADE AND BILLS RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	186,216	332,891
Bills receivables	238	400
Provision for loss allowance	(5,271)	(5,434)
	<b>181,183</b>	<b>327,857</b>

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	128,626	302,053
More than 3 months but within 6 months	21,294	20,148
More than 6 months but within 1 year	31,263	5,656
	<b>181,183</b>	<b>327,857</b>

Reconciliation of loss allowance for trade receivables:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At 1 January	5,434	7,003
Decrease in loss allowance for the year	–	(1,569)
Reversal of allowance for receivables	(163)	–
	<b>5,271</b>	<b>5,434</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 26. TRADE AND BILLS RECEIVABLES (continued)

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

	Current	Within 30 days past due	31-60 days past due	61-120 days past due	Over 120 days past due	Total
At 31 December 2022						
Weighted average expected loss rate	0%	0%	0%	0%	17%	
Receivable amount (RMB'000)	116,069	21,081	7,570	9,815	31,919	186,454
Loss allowance (RMB'000)	–	–	–	–	5,271	5,271
At 31 December 2021						
Weighted average expected loss rate	0%	0%	0%	0%	84%	
Receivable amount (RMB'000)	304,858	15,649	1,809	4,479	6,496	333,291
Loss allowance (RMB'000)	–	–	–	–	5,434	5,434

## 27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Advances to suppliers (note)	7,196	9,200
Prepaid sales tax and government surcharges	29,419	14,416
Prepaid expenses	2,064	1,542
Other receivables	20,070	10,337
	<b>58,749</b>	<b>35,495</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cash and bank balances	145,632	216,652
Less: Pledged bank deposits	<b>(55,049)</b>	(138,658)
<hr/>		
Cash and cash equivalents	<b>90,583</b>	77,994

At the end of the reporting period, the Group's cash and bank balances denominated in RMB were approximately RMB121,150,000 (2021: RMB214,549,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

At 31 December 2022, bank deposits of RMB55,049,000 (2021: RMB138,658,000) were pledged to secure the banking facilities granted to the Group.

## 29. TRADE AND BILLS PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	109,218	221,500
Bills payables	<b>166,920</b>	265,164
<hr/>		
	<b>276,138</b>	486,664



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 29. TRADE AND BILLS PAYABLES (continued)

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

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Within 3 months	<b>149,867</b>	330,472
More than 3 months but within 6 months	<b>105,090</b>	148,350
More than 6 months but within 1 year	<b>18,885</b>	7,838
More than 1 year	<b>2,296</b>	4
	<b>276,138</b>	486,664

## 30. LEASE LIABILITIES

	<b>Lease payments 2022 RMB'000</b>	<b>Present lease payments 2022 RMB'000</b>	Lease payments 2021 RMB'000	Present value of lease payments 2021 RMB'000
Within one year	<b>2,415</b>	<b>2,222</b>	3,529	3,198
In the second to fifth years, inclusive	<b>3,132</b>	<b>2,899</b>	2,665	2,552
	<b>5,547</b>	<b>5,121</b>	6,194	5,750
Less: Future finance charges	<b>(426)</b>		(444)	
Present value of lease obligations	<b>5,121</b>	<b>5,121</b>	5,750	5,750
Less: Amount due for settlement within 12 months (shown under current liabilities)		<b>(2,222)</b>		(3,198)
Amount due for settlement after 12 months		<b>2,899</b>		2,552

At 31 December 2022 and 2021, the average effective borrowing rate was 4.75% to 10.73%. Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 31. CONTRACT LIABILITIES

### Disclosures of revenue-related items:

	<b>As at 31 December 2022 RMB'000</b>	As at 31 December 2021 RMB'000	As at 1 January 2021 RMB'000
Contract liabilities	<b>3,230</b>	4,709	3,717

	<b>As at 31 December 2022 RMB'000</b>	As at 31 December 2021 RMB'000	As at 1 January 2021 RMB'000
Contract assets (include in trade and bills receivables)	<b>181,183</b>	327,857	190,289

	<b>2022 RMB'000</b>	2021 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	<b>3,770</b>	3,677

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

	<b>2022 RMB'000</b>	2021 RMB'000
2022	–	4,709
2023	<b>3,230</b>	–
	<b>3,230</b>	4,709

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 31. CONTRACT LIABILITIES (continued)

### Significant changes in contract liabilities during the years

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Increase due to operations in the year	<b>68,142</b>	85,495
Transfer of contract liabilities to revenue	<b>(69,621)</b>	(84,503)

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

## 32. OTHER PAYABLES AND ACCRUALS

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued liabilities	<b>13,684</b>	16,240
Payroll payables	<b>3,706</b>	5,930
Payable for the acquisition of property, plant and equipment	<b>22,000</b>	20,425
Others	<b>3,230</b>	9,408
	<b>42,620</b>	52,003

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 33. INTEREST-BEARING BORROWINGS

	2022			2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Bank loans – Secured	2.800%-6.175%	2023-2032	302,019	3.021%-6.175%	2022-2030	193,771
Other loan – Secured	7.512%-10.730%	2023-2025	25,361	7.560%-11.605%	2023-2024	30,933
Other loan – Unsecured	N/A	N/A	–	12.00%	2022	25,000
			<b>327,380</b>			<b>249,704</b>
Repayable:						
Within one year or on demand			145,418			216,275
In the second year			12,278			19,876
In the third to fifth years, inclusive			149,754			9,501
Beyond five years			19,930			4,052
			<b>327,380</b>			<b>249,704</b>

### Notes:

- (i) The Group's bank loans are secured by:
- mortgages over the Group's buildings and plant and machinery situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB268,743,000 (2021: RMB299,948,000);
  - mortgages over the Group's leasehold lands situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB68,460,000 (2021: RMB15,214,000); and
  - mortgages over the Group's investment properties in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB20,080,000 (2021: RMB20,520,000).
- (ii) The Group's other loans are secured by:
- mortgages over the Group's plant and machinery, office equipment and motor vehicles situated in the PRC, which have an aggregate carrying value at the end of the reporting period of approximately RMB32,311,000 (2021: RMB51,245,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 34. DEFERRED INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Government grants</b>		
At 1 January	1,850	–
Addition	9,288	2,000
Released during the year	(380)	(150)
<hr/>		
At 31 December	10,758	1,850
<hr/>		
Current	380	200
Non-current	10,378	1,650
<hr/>		
	10,758	1,850
<hr/>		

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

## 35. DUE TO A DIRECTOR/(FORMER DIRECTOR)

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Due to a director</b>		
Mr. Gao Juwen	1,430	–
<hr/>		
Mr. Huang Wanneng	–	9,050
<hr/>		

The amount due is unsecured, with no interest-bearing (2021: with 5.22% annual interest-bearing) and should be repaid within one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 36. SHARE CAPITAL

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Authorised:</b>		
2,000,000,000 ordinary shares of HK\$0.001 each	<b>1,760</b>	1,760
<b>Issued and fully paid:</b>		
852,612,470 ordinary shares of HK\$0.001 each	<b>747</b>	747

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

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

### Capital management

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 37. RESERVES

### a) Group

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

#### ***Nature and purpose of reserves of the Group***

##### *Statutory surplus reserve*

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

##### *Exchange fluctuation reserve*

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

### b) Company

	<b>Share premium</b> <i>RMB'000</i>	<b>Exchange fluctuation reserve</b> <i>RMB'000</i>	<b>Accumulated losses</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2021	877,157	(7,640)	(678,084)	191,433
Total comprehensive expenses for the year	–	1,666	(3,314)	(1,648)
At 31 December 2021 and 1 January 2022	877,157	(5,974)	(681,398)	189,785
Total comprehensive expenses for the year	–	3,616	(1,022)	2,594
At 31 December 2022	877,157	(2,358)	(682,420)	192,379

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Changes in liabilities arising from financing activities

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

	<b>Lease liabilities</b>	<b>Interest- bearing borrowings</b>	<b>Due to a director</b>	<b>Total liabilities from financing activities</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2021	3,252	199,980	3,100	206,332
Changes in cash flows	(2,462)	34,418	5,950	37,906
Non-cash changes				
– new leases entered during the year	5,057	–	–	5,057
– lease modification	(20)	–	–	(20)
– remeasurement upon early termination of leases	(444)	–	–	(444)
– interest charged	367	15,306	–	15,673
At 31 December 2021 and 1 January 2022	5,750	249,704	9,050	264,504
Changes in cash flows	(4,016)	65,033	(7,647)	53,370
Non-cash changes				
– new leases entered during the year	4,290	–	–	4,290
– lease modification	(33)	–	–	(33)
– remeasurement upon early termination of leases	(1,321)	–	–	(1,321)
– interest charged	451	12,643	–	13,094
At 31 December 2022	5,121	327,380	1,403	333,904



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 39. COMMITMENTS

### (a) Commitments under operating leases

#### *As lessor*

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

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

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Within one year	<b>2,350</b>	2,548
In the second to fifth years, inclusive	<b>7,688</b>	7,989
Over 5 years	<b>1,174</b>	3,267
	<b>11,212</b>	13,804

### (b) Capital commitments

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

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>Property, plant and equipment</b>	<b>315,099</b>	50,901
Contracted but not provided for	<b>26,059</b>	23,128
	<b>341,158</b>	74,029

## 40. CONTINGENT LIABILITIES

At 31 December 2022, the Group did not have any significant contingent liabilities (2021: Nil).

## 41. PLEDGE OF ASSETS

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 42. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, as at 31 December 2022, the ultimate shareholder and a family member of the ultimate shareholder have guaranteed bank loans made to the Group of approximately RMB289,019,000 (2021: RMB153,841,000).

## 43. EVENTS AFTER THE REPORTING PERIOD

There will be no significant events after the reporting period.

## 44. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

Particulars of the Company's principal subsidiaries as at 31 December 2022 are as follows:

Company name	Place of incorporation/ registration	Paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
<b>Directly held:</b>				
China Grandsoo Holdings Company Limited	British Virgin Islands	US\$3	100%	Investment holding
<b>Indirectly held:</b>				
Sijia International Holding Limited	Hong Kong	HK\$10,000	100%	Investment holding
Xiamen Grandsoo Industrial & Trade Company Limited (Note i)	PRC	HK\$300,000,000	100%	Manufacturing and selling end products
Fujian Sijia# (Note ii)	PRC	HK\$390,000,000	100%	Manufacturing and selling materials and end products
Shanghai Sijia# (Note i)	PRC	HK\$208,240,000	100%	Manufacturing and selling special functional composites
Fujian Sijia New Materials Technology Co., Ltd# (福建思嘉新材料科技有限公司) ("Fujian Sijia New Materials") (Note iii)	PRC	RMB99,441,450	51%	Manufacturing and selling materials and end products

# The English names are for identification only

Note:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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

Name	Fujian Sijia New Materials 2022	Fujian Sijia New Materials 2021
Principal place of business and country of incorporation	PRC	PRC
% of ownership interests and voting rights held by NCI	51%	51%
	<b>RMB'000</b>	<b>RMB'000</b>
<b>At 31 December:</b>		
Non-current assets	221,902	71,190
Current assets	51,332	2,601
Non-current liabilities	(170,391)	–
Current liabilities	(8,325)	(15,938)
Net assets	<b>94,518</b>	57,853
Accumulated NCI	<b>46,584</b>	28,557
<b>Year ended 31 December:</b>		
Revenue	896	390
Loss for the year	(3,405)	(1,525)
Total comprehensive loss	(3,405)	(1,525)
Loss allocated to NCI	(1,669)	(747)
Net cash used in operating activities	(27,030)	(1,003)
Net cash used in investing activities	(151,633)	(71,734)
Net cash generated from financing activities	189,302	74,378
Net increase in cash and cash equivalents	<b>10,639</b>	1,641

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

	Notes	2022 RMB'000	2021 RMB'000
<b>Non-current assets</b>			
Investments in subsidiaries		89,340	89,340
<b>Current assets</b>			
Due from a subsidiary		104,545	104,673
Cash and cash equivalents		420	244
		<b>104,965</b>	104,917
<b>Current liabilities</b>			
Other payables and accruals		1,179	3,725
		<b>1,179</b>	3,725
<b>Net current assets</b>		<b>103,786</b>	101,192
<b>Total assets less current liabilities</b>		<b>193,126</b>	190,532
<b>NET ASSETS</b>		<b>193,126</b>	190,532
<b>Capital and reserves</b>			
Issued capital	36	747	747
Reserves	37(b)	192,379	189,785
<b>TOTAL EQUITY</b>		<b>193,126</b>	190,532

## 46. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors on 27 March, 2023.

## FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
REVENUE	<b>926,621</b>	1,441,015	812,141	660,482	536,619
Gross profit	<b>146,320</b>	260,468	188,710	144,987	122,179
PROFIT BEFORE TAX	<b>48,858</b>	117,816	44,280	44,247	31,102
PROFIT FOR THE YEAR	<b>44,519</b>	106,185	45,031	40,448	31,125
Attributable to:					
Owners of the Company	<b>46,188</b>	106,932	45,031	40,448	31,125
Non-controlling interests	<b>(1,669)</b>	(747)	—	—	—
	<b>44,519</b>	106,185	45,031	40,448	31,125
Basic earnings per share ( <i>RMB cents</i> )	<b>5.42</b>	12.54	5.28	4.74	3.65
	As at 31 December				
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Total assets	<b>1,334,196</b>	1,391,390	970,224	784,590	751,135
Equity and liabilities					
Total liabilities	<b>688,270</b>	831,659	569,758	466,383	477,169
Total equity	<b>645,926</b>	559,731	400,466	318,207	273,966