

Yik Wo International Holdings Limited

易和國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8659

Annual Report

2021



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Xu Youjiang (*Chairman*)
Ms. Xu Liping
Mr. Zhang Yuansheng

Independent non-executive Directors

Mr. Chung Chi Kit (appointed on 10 August 2021)
Mr. Liu Dajin
Mr. Deng Zhihuang
Mr. Li Danny Fui Lung (resigned on 10 August 2021)

COMPLIANCE OFFICER

Mr. Xu Youjiang

AUTHORISED REPRESENTATIVES (FOR THE PURPOSES OF THE GEM LISTING RULES)

Ms. Kwong Oi Man Patty (appointed on 30 July 2021)
Mr. Xu Youjiang
Mr. Yeung Tsz Kit Alban (resigned on 30 July 2021)

COMPANY SECRETARY

Ms. Kwong Oi Man Patty (appointed on 30 July 2021)
Mr. Yeung Tsz Kit Alban (resigned on 30 July 2021)

AUDIT COMMITTEE

Mr. Chung Chi Kit (*Chairman*) (appointed on 10 August 2021)
Mr. Liu Dajin
Mr. Deng Zhihuang
Mr. Li Danny Fui Lung (resigned on 10 August 2021)

REMUNERATION COMMITTEE

Mr. Deng Zhihuang (*Chairman*)
Mr. Chung Chi Kit (appointed on 10 August 2021)
Mr. Liu Dajin
Mr. Zhang Yuansheng
Mr. Li Danny Fui Lung (resigned on 10 August 2021)

NOMINATION COMMITTEE

Mr. Liu Dajin (*Chairman*)
Mr. Deng Zhihuang
Mr. Chung Chi Kit (appointed on 10 August 2021)
Mr. Xu Youjiang
Mr. Li Danny Fui Lung (resigned on 10 August 2021)

RISK MANAGEMENT COMMITTEE

Mr. Xu Youjiang (*Chairman*)
Ms. Xu Liping
Mr. Zhang Yuansheng
Mr. Liu Dajin

AUDITOR

Grant Thornton Hong Kong Limited
11th Floor
Lee Garden Two
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COMPLIANCE ADVISER

Grand Moore Capital Limited
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LEGAL ADVISER AS TO HONG KONG LAW

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PRINCIPAL BANKER

Agricultural Bank of China
Jinjiang Longhu Branch
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Fujian Province
China

REGISTERED OFFICE IN CAYMAN ISLANDS

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KY1-1104
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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72 Hoi Yuen Road
Kwun Tong
Kowloon
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hill
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE OF THE COMPANY

www.yikwo.cn

GEM STOCK CODE

8659

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**") of Yik Wo International Holdings Limited, I am pleased to present the annual results of the Company and its subsidiaries for the year ended 31 December 2021.

FINANCIAL PERFORMANCE

For the year ended 31 December 2021, the Group recorded a revenue of approximately RMB262.6 million, representing a year-on-year increase of approximately 12.6% (2020: approximately RMB233.2 million). Profit for the year attributable to owners of the Company was approximately RMB35.2 million (2020: approximately RMB20.8 million). The increase in revenue was mainly due to the increase in demands for take-away food by the general public since the outbreak of the Novel Coronavirus ("**COVID-19**").

BUSINESS REVIEW

Same as above, despite the COVID-19 outbreak, the Group's revenue for the year ended 31 December 2021 was approximately RMB262.6 million, representing an increase of approximately 12.6% as compared to the corresponding year ended 31 December 2020. Moreover, the Group recorded a profit attributable to the owners of the Company of approximately RMB35.2 million whilst the profit attributable to owners of the Company last year was approximately RMB20.8 million. As a result, the Directors are of the view that it has a direct impact for the growth of its core business in a wave of COVID-19.

PROSPECTS

Looking forward, the Directors consider that the Group will continue to be affected by external opportunities and challenges such as the popularity of environmentally friendly disposable plastic food storage containers, advances in production technologies and competition from substitutes, such as disposable food storage containers in the market made of other materials. The Directors are of the view that maintaining product safety and focusing on environmental protection, brand promotion, expansion of sales channels and product customisation remain to be the key drivers for the growth of the disposable plastic storage container business. With the Group's experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to strengthen its market position in the industry and expand its market share by the implementation of the Group's business plans through utilisation of the net proceeds from the listing of the Company's shares (the "**Shares**") on GEM of the Stock Exchange of Hong Kong on 13 July 2020 (the "**Listing**").

In view of the a rapidly growing trend over the past few years of the film industry and enhancement of regulatory environment and favorable policies in China, the Directors believe that the investment in film projects at this moment will enable it to leverage the opportunities that the pandemic in China has gradually eased and popular entertainment needs will rebound, and seize the opportunity in the emerging film industry. For which, the Group entered into the equity sale and purchase agreements to acquire 100% equity interest of June Pictures & Media Limited with total consideration RMB20,571,430 during the period. The transaction has not been completed at the date of the quarter report. The Directors believe that investment in the target company will bring considerable income to the Group and is a suitable investment, which will also expand the business scope of the Group.

In the long run, the Board is of the view that the Company remains to focus on its core business which is disposable plastic food storage container.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to express my sincerest gratitude to our shareholders, business partners, and valued customers for their continuous support, while also expressing my appreciation to the management team and staff for their hard work and contribution to the development of the Group.

Xu Youjiang

Chairman

Hong Kong, 31 March 2022

FINANCIAL HIGHLIGHTS

CONSOLIDATED RESULTS

	Year ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	262,637	233,181	212,795	192,458	166,117
Profit before taxation	47,868	32,546	29,192	30,999	30,357
Profit for the year	35,231	20,760	20,765	22,580	22,664
Profit for the year attributable to owners of the Company	35,231	20,760	20,501	22,414	22,664
Total comprehensive income for the year attributable to owners of the Company	35,361	21,244	20,405	22,414	22,664

ASSETS AND LIABILITIES

	As at 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Assets					
Non-current assets	47,297	50,096	34,577	33,933	13,055
Current assets	153,456	113,593	76,950	71,479	70,319
Total assets	200,753	163,689	111,527	105,412	83,374
Equity and liabilities					
Non-current liabilities	2,430	3,415	3,703	—	—
Current liabilities	32,884	30,196	28,971	24,328	19,538
Total liabilities	35,314	33,611	32,674	24,328	19,538
Total equity	165,439	130,078	78,853	81,084	63,836
Total equity and liabilities	200,753	163,689	111,527	105,412	83,374
Net current assets	120,572	83,397	47,979	47,151	50,781
Total assets less current liabilities	167,869	133,493	82,556	81,084	63,836

FINANCIAL SUMMARY

The following table summarizes the consolidated financial statements of Group in respective years as indicated:

	For the year ended 31 December				2021 RMB'000
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	
Revenue	166,117	192,458	212,795	233,181	262,637
Cost of sales	(118,326)	(137,571)	(152,375)	(164,015)	(186,689)
Gross profit	47,791	54,887	60,420	69,166	75,948
Other income	47	45	59	143	266
Selling expenses	(9,160)	(9,872)	(11,019)	(11,543)	(12,232)
Administrative and other operating expenses	(8,321)	(14,061)	(20,042)	(25,008)	(15,919)
Profit from operation	30,357	30,999	29,418	32,758	48,063
Finance costs	—	—	(226)	(212)	(195)
Profit before income tax	30,357	30,999	29,192	32,546	47,868
Income tax expense	(7,693)	(8,419)	(8,427)	(11,786)	(12,637)
Profit for the year	22,664	22,580	20,765	20,760	35,231
Other comprehensive income, net of tax:					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operation recognised	—	—	(96)	484	130
Total comprehensive income for the year	22,664	22,580	20,669	21,244	35,361
Profit for the year attributable to:					
Equity holders of the Company	22,664	22,414	20,501	20,760	35,231
Non-controlling interests	—	166	264	—	—
	22,664	22,580	20,765	20,760	35,231
Total comprehensive income for the year attributable to:					
Equity holders of the Company	22,664	22,414	20,405	21,244	35,361
Non-controlling interests	—	166	264	—	—
	22,664	22,580	20,669	21,244	35,361

FINANCIAL SUMMARY

Note:

Pursuant to the group reorganisation as more fully explained in the section headed "Corporate Reorganisation" in Appendix I to the Prospectus (the "Group Reorganisation"), the Company became the holding company of the companies now comprising the Group on 31 May 2019. By completing the corporate division and interspersing the Company and other intermediate holding companies between the Operating Company, and the ultimate controlling shareholders, the Company became the holding company of the companies now comprising the Group on 31 May 2019. The Group is under the control of Mr. Xu prior to and after the Reorganisation. Accordingly, the consolidated financial statements have been prepared under the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants as if the Company had always been the holding company of the Group.

The above financial information is extracted from the consolidated statements of profit or loss and other comprehensive income of the Group for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, which are prepared as if the current group structure had been in existence throughout the years ended 31 December 2017, 2018, 2019, 2020 and 2021 or since the date of incorporation of respective group companies where there is a shorter period.

	As at 31 December				
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000
Assets and liabilities					
Total assets	83,374	105,412	111,527	163,689	200,753
Total liabilities	(19,538)	(24,328)	(32,674)	(33,611)	(35,314)
Net assets	63,836	81,084	78,853	130,078	165,439
Equity attributable to:					
– Owners of the Company	63,836	77,030	78,853	130,078	165,439
– Non-controlling interests	—	4,054	—	—	—
	63,836	81,084	78,853	130,078	165,439

Note:

Pursuant to the Group Reorganisation, the Company became the holding company of the companies now comprising the Group on 31 May 2019. The Company became the holding company of the companies now comprising the Group on 31 May 2019. By completing the corporate division and interspersing the Company and other intermediate holding companies between the Operating Company, and the ultimate controlling shareholders, the Company became the holding company of the companies now comprising the Group on 31 May 2019. The Group is under the control of Mr. Xu prior to and after the Reorganisation. Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants as if the Company had always been the holding company of the Group.

The above financial information is extracted from the consolidated statements of financial position of the Group as at 31 December 2017, 2018, 2019, 2020 and 2021 which present the assets and liabilities of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence at those dates.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue for the year ended 31 December 2021 was approximately RMB262.6 million, representing an increase of approximately 12.6% as compared to the corresponding year ended 31 December 2020. The Group recorded a profit attributable to the owners of the Company of approximately RMB35.2 million whilst the profit attributable to owners of the Company last year was approximately RMB20.8 million.

The Group facilitates production of a comprehensive range of disposable plastic food storage containers, design and production of moulds, which are mainly sold to customers in the People's Republic of China (the "PRC"), with a small portion of the sales to customers in overseas countries, including the United States, Australia, Saudi Arabia and the Republic of Trinidad and Tobago.

For the year ended 31 December 2021, the revenue of the Group recorded an increase primarily due to the demands for the Group's disposable plastic food storage containers having increased and remaining at a high level.

Looking forward, the Directors consider that the Group will continue to be affected by external opportunities and challenges such as the popularity of environmentally friendly disposable plastic food storage containers, advances in production technologies and competition from substitutes, such as disposable food storage containers in the market made of other materials. The Directors are of the view that maintaining product safety and focusing on environmental protection, brand promotion, expansion of sales channels and product customisation remain to be the key drivers for the growth of the disposable plastic storage container business. With the Group's experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to strengthen its market position in the industry and expand its market share by the implementation of the Group's business plans through utilisation of the net proceeds from the Listing.

In view of the a rapidly growing trend over the past few years of the film industry and enhancement of regulatory environment and favorable policies in China, the Directors believe that the investment in film projects at this moment will enable it to leverage the opportunities that the pandemic in China has gradually eased and popular entertainment needs will rebound, and seize the opportunity in the emerging film industry. For which, the Group entered into the equity sale and purchase agreements to acquire 100% equity interest of June Pictures & Media Limited with total consideration RMB20,571,430 during the year. The transaction has not been completed at the date of this report. The Directors believe that investment in the target company will bring considerable income to the Group and is a suitable investment, which will also expand the business scope of the Group.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2021, the Group's total revenue amounted to approximately RMB262.6 million (2020: approximately RMB233.2 million). The Group recognised an increase of total revenue by approximately RMB29.4 million or approximately 12.6% from 2020 to 2021, which was mainly due to the increase in demands for take-away food by the general public since the outbreak of COVID-19 and the increase in production capacity in line with increased orders.

Cost of sales

The cost of sales increased from approximately RMB164.0 million for the year ended 31 December 2020 to approximately RMB186.7 million for the year ended 31 December 2021, representing an increase of approximately RMB22.7 million or approximately 13.8%. Such increase was in line with the increase in revenue and more expenses, such as salary, raw material purchases and depreciation, were incurred during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

Gross profit of the Group increased by approximately RMB6.7 million or approximately 9.8% from approximately RMB69.2 million for the year ended 31 December 2020 to approximately RMB75.9 million for the year ended 31 December 2021. The overall gross profit margin slightly decreases from approximately 29.7% for the year ended 31 December 2020 to approximately 28.9% for the year ended 31 December 2021 because more depreciation expenses were incurred during the year due to acquisitions of new machines in the second half of last year.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2021 amounted to approximately RMB12.2 million (2020: RMB11.5 million), representing an increase of 6.0%. Such increase was mainly due to the increase of sales staff costs and transportation amounting to RMB2.2 million (2020: RMB1.8 million) and RMB9.1 million (2020: RMB8.5 million) for the year ended 31 December 2021 respectively.

Administrative and listing expenses

Administrative and other operating expenses of the Group decreased by approximately RMB9.1 million or approximately 36.3% from approximately RMB25.0 million for the year ended 31 December 2020 to approximately RMB15.9 million for the year ended 31 December 2021.

Administrative and other operating expenses primarily consist of staff costs, amortisation expense in intangible assets, travelling expenses, utilisation expenses and entitlement expenses, depreciation, transportation and motor vehicle expenses, professional service fees and other costs incurred for the Group's daily operation. The decrease was primarily attributable to the absence of the Listing expenses in current year whilst the Listing expense incurred for the year ended 31 December 2020 was approximately RMB10.0 million.

Finance Costs

During the year ended 31 December 2021, finance costs for the Group was approximately RMB195,000 (2020: RMB212,000). It was mainly due to the lease arrangement in respect of the machinery and equipment at the end of lease term.

Income tax expense

Income tax expense for the Group increased by approximately RMB0.8 million or 7.2% from approximately RMB11.8 million for the year ended 31 December 2020 to approximately RMB12.6 million for the year ended 31 December 2021. The increase in taxation was mainly attributable to the increase in profit before taxation from approximately RMB32.5 million for the year ended 31 December 2020 to approximately RMB47.9 million for the year ended 31 December 2021.

Profit for the year

Profit for the year increased by approximately RMB14.4 million or approximately 69.7% from approximately RMB20.8 million for the year ended 31 December 2020 to approximately RMB35.2 million for the year ended 31 December 2021. Such increase was primarily attributable to the net effect of the increase in gross profit, selling expenses and income tax expense and decrease in administrative and other operating expenses.

FOREIGN CURRENCY EXPOSURE RISKS

The Group operated mainly in the PRC with most of the Group's transactions settled in Renminbi. As such, the Group did not have significant exposure to foreign exchange risk during the year. The Group did not use any financial instruments for hedging purpose during the year ended 31 December 2021.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Interest rate risk

The Group currently does not have interest rate hedging policy. However, the management of the Group closely monitors its exposure to future cash flow risk as a result of change in market interest rate and will consider hedging on changes in market interest rates should the need arise.

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Group is exposed to credit risk in relation to its bank deposits, trade and other receivables.

To manage this risk, bank deposits are mainly placed with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions. The management does not expect that there will be any significant losses from non-performance by these counterparties.

Liquidity risk

In managing the Group's liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and banking facilities deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net current assets increased from approximately RMB83.4 million as at 31 December 2020 to approximately RMB120.6 million as at 31 December 2021 primarily due to the increase in trade and other receivables of approximately RMB4.7 million and the increase in cash and cash equivalents of approximately RMB35.2 million.

The current ratio improved dramatically from approximately 3.8 times as at 31 December 2020 to approximately 4.7 times as at 31 December 2021.

The gearing ratio is calculated based on debts divided by total equity as at the respective dates and multiplied by 100%. The gearing ratio improved from approximately 23.9% as at 31 December 2020 to 19.2% as at 31 December 2021, respectively.

Cash position

At 31 December 2021, the bank balances and cash of the Group were approximately of RMB107.6 million (2020: approximately of RMB72.4 million). The increase was mainly due to the net cash generated from operating activities.

Borrowings

As at 31 December 2021, the Group had no borrowings (2020: Nil). As at 31 December 2021, the Group had lease liabilities of approximately RMB3.4 million (2020: RMB4.4 million), which are to be repaid based on the agreed repayment schedule ranging from 3 to 20 years as set out in the agreements. For details of the lease liabilities, please refer to note 20 to the annual financial report. As at 31 December 2021 and 2020, all the trade and other payables were current liabilities and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange on 13 July 2020. There has been no change in the capital structure of the Group since the listing of the shares of the Company on GEM of the Stock Exchange. The share capital of the Group only comprises of ordinary shares.

As at 31 December 2021, the Company's issued share capital was HK\$6,000,000 and the number of its issued ordinary shares was 600,000,000 of HK\$0.01 each.

There has been no material change in the share capital structure of the Company during the year ended 31 December 2021.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 10 September 2021, the Company entered into the equity sale and purchase agreements with Mr. Xu, Yeewo Pictures & Media Limited ("**Yeewo Pictures**") and Mr. Gong Zongfan ("**Mr. Gong**"), pursuant to which, the Company has conditionally agreed to acquire, and Mr. Xu, Yeewo Pictures and Mr. Gong have conditionally agreed to collectively sell 100% of the issued share capital of June Pictures & Media Limited ("**Target Company**"), at a consideration of RMB72,000,000 (equivalent to HK\$86,400,000) (the "**Acquisition**"). The Consideration shall be satisfied by the Company by way of: (i) issue and allotment of 336,000,000 new shares of the Company to Mr. Xu; (ii) issue and allotment of 72,000,000 new shares of the Company to Yeewo Pictures; and (iii) issue and allotment of 72,000,000 new shares of the Company to Mr. Gong, at an issue price of HK\$0.18 per new share, resulting in the total value of HK\$86,400,000 (equivalent to approximately RMB72,000,000).

On 20 January 2022, the Company, Mr. Xu, Yeewo Pictures and Mr. Gong entered into the supplemental agreements (the "**Supplemental Agreements**") to adjust certain terms of the Acquisition, given that the interest of film project held by the Target Company has been lowered from 35% to 10% by mutual agreements among the parties. Pursuant to the Supplemental Agreements, the total consideration of RMB20,571,430 shall be satisfied by the Company by way of: (i) issue and allotment of 74,482,760 new shares of the Company to Mr. Xu; (ii) issue of a debt instrument in the sum of RMB3,085,714 to Yeewo Pictures; and (iii) issue of a debt instrument in the sum of RMB3,085,714 to Mr. Gong. The completion of the transaction is conditional upon fulfilment or waiver (as the case may be) of certain conditions. Upon the completion, the Company will hold 100% equity interest in the Target Company and the financial statements of the Target Company will be consolidated into the consolidated financial statements of the Group.

The Acquisition is not yet completed as at the date of annual report and is subject to the Shareholder approval on the extraordinary general meeting to be held on 1 April 2022. Details of the above transaction were set out in the announcements of the Company dated 10 September 2021 and 20 January 2022 and circular of the Company dated 16 March 2022.

Same as disclosed above, the Group did not make any other significant investments, acquisitions or disposal during the year ended 31 December 2021 which would constitute a discloseable transaction under GEM Listing Rules.

CHARGES ON GROUP ASSETS

As at 31 December 2021, the Group did not have any charges on its assets (2020: Nil).

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any material contingent liabilities (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS AND COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As the actual amount of the listing expenses was lower than estimated amount of the listing expenses set out in the prospectus of the Company dated 30 June 2020 (the "Prospectus"), the actual net proceeds from the Share Offer (as defined in the Prospectus) of approximately RMB22.8 million as stated in the allotment result announcement dated 10 July 2020 (after deduction of the underwriting commission and listing-related expenses), was less than the estimated net proceeds of approximately RMB32.8 million as set out in the Prospectus. The table below sets forth the information in relation to the use of proceeds from the Share Offer.

Set out below is the actual utilisation of the net proceeds as at 31 December 2021:

Use of Net Proceeds	Planned use of total Net Proceeds (RMB million)	Approximate percentage of total Net Proceeds %	Actual use of Net Proceeds as at 31 December 2021 (RMB million)	Unused total Net Proceeds as at 31 December 2021 (RMB million)	Expected time line for utilisation of unused net proceeds as at 31 December 2021
To expand production capacity and enhance production efficiency ^(Note 1)	18.1	79.3%	18.1	–	N/A
To set up a second production facility ^(Note 2)	1.9	8.2%	1.4	0.5	Before end of year 2022
To strengthen research and development capabilities ^(Note 3)	2.5	11.0%	2.5	–	N/A
To expand Group's sales and marketing team	0.3	1.5%	0.3	–	N/A
Total	22.8	100%	22.3	0.5	

Notes:

- The Group utilised the net proceeds for the acquisition of new machines for expanding production capacity of approximately RMB18.1 million.
- The Group commenced the rental arrangement of new plant and warehouse of approximately RMB0.8 million and the respective renovation of approximately RMB0.6 million.
- The Group commenced to hire research and development team as of approximately RMB0.1 million and acquire mould tools for research and development use of approximately RMB2.4 million.
- The Group commenced to expand its sales and marketing team of approximately RMB0.3 million.

The estimated net proceeds raised from the Share Offer was approximately RMB32.8 million as set out in the Prospectus. Set out below are the details of the intended use of proceeds since listing up to 31 December 2021 as per the Prospectus:

- Approximately RMB15.5 million for expanding production capacity and enhance production efficiency;
- Approximately RMB1.2 million for setting up a second production facility;
- Approximately RMB1.7 million for strengthening research and development capabilities; and
- Approximately RMB0.1 million for expanding the Group's sales and marketing team.

MANAGEMENT DISCUSSION AND ANALYSIS

The actual net proceeds raised from the Share Offer was approximately RMB22.8 million, which was lower than the estimated net proceeds as set out in the Prospectus. The Group's actual use of proceeds since the Listing up to 31 December 2021 was approximately RMB22.3 million. The Group conducted its business in accordance with the business plan and business objectives and even faster than it planned as stated in the Prospectus, which indicated that the Group can expand more rapidly than it planned. Set out below are the details of the actual use of proceeds since listing up to 31 December 2021:

- Approximately RMB18.1 million for expanding production capacity and enhance production efficiency;
- Approximately RMB1.4 million for setting up a second production facility;
- Approximately RMB2.5 million for strengthening research and development capabilities; and
- Approximately RMB0.3 million for expanding the Group's sales and marketing team.

The Group will use the remaining unutilised net proceeds of approximately RMB0.5 million in accordance with its plan as set out in the Prospectus. The Group will from time to time review its business plans in the best interests of the Shareholders.

BIOGRAPHIES OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Youjiang (許有獎), aged 55, is the chairman of our Company and our executive Director.

Mr. Xu was appointed as our Director on 13 December 2018 and was re-designated as our executive Director on 9 May 2019. Mr. Xu is primarily responsible for the overall management, strategic development and decision-making of our Group.

Mr. Xu has over 28 years of experience in the production of plastic products. In March 1992, Mr. Xu joined Jinjiang Hengsheng Toys Co., Ltd* (晉江恒盛玩具有限公司) ("**Hengsheng Toys**"), a company that engages in the manufacturing of toys, toy accessories, electronic games, plastic products and daily household appliances etc., as the deputy general manager, where he was responsible for overseeing the daily operations of the factory. He was appointed as the vice chairman in November 1998. From August 2002 to March 2019, he was the general manager and was responsible for making major operational decisions of the company. From July 2011 to March 2019, Mr. Xu was the general manager of Quanzhou Jazz Apparel Co., Ltd.* (泉州爵士兔服飾有限公司), a company that engages in the manufacturing of children apparels and accessories under the "JAZZIT" brand, where he was responsible for managing and overseeing the business operations. Mr. Xu was also the executive director of Quanzhou Jazz Apparel Co., Ltd* (泉州爵士兔服飾有限公司) from July 2011 to July 2014. Since March 2011, Mr. Xu has been the executive director and general manager of Fujian Hengsheng Animation Culture Diffusion Co., Ltd* (福建恒盛動漫文化傳播有限公司) ("**Hengsheng Animation**"). Mr. Xu was appointed as a director of the Quanzhou Bags Association in January 2011, a member of the executive committee of Jinjiang Federation of Industry and Commerce (General Chamber of Commerce) in December 2011, the vice chairman of the Jinjiang Association of Enterprises with Foreign Investment* (晉江外商投資企業協會) in April 2012, a director of the Jinjiang Longhu Chamber of Commerce and Foreign Investment Enterprise Association* (晉江市龍湖商會暨外商投資企業協會) in October 2012 and a director of the Jinjiang Federation of Enterprises and Entrepreneurs* (晉江市企業與企業家聯合會) in June 2017. Mr. Xu obtained his specialist diploma in marine engineering management from Jimei Navigation College* (集美航海專科學校) in the PRC in July 1989. He completed the executive training programme for Jinjiang entrepreneurs at the School of Professional and Continuing Education of the University of Hong Kong in June 2012. He then completed a business administration advanced seminar for senior executives at Huaqiao University in August 2014. Mr. Xu was a director of Heng Sheng Holding Group Limited (900270:KS) from July 2015 until his resignation in March 2019 after his careful consideration so as to focus on and fully devote his time as the chairman and executive director for the management, strategic development and business operations of our Group in the manufacturing of disposable plastic food storage containers. Mr. Xu is the spouse of Ms. Xu Liping.

Ms. Xu Liping (許麗萍), aged 50, is our executive Director. Ms. Xu joined our Group on 2 January 2019 as the vice chairman of Hengsheng Animation.

She was appointed as our Director on 18 March 2019 and re-designated as our chief executive officer and executive Director on 9 May 2019. Ms. Xu is primarily responsible for the business development and overseeing daily administration and operations of our Group. Ms. Xu has over 29 years of experience in the production of plastic products. From September 1990 to December 2000, Ms. Xu worked as the packaging executive at Jinjiang Longhu Xiuheng Plastic Toy Accessories Co., Ltd.* (晉江市龍湖秀恒塑料玩具配件有限公司), a company that engages in the production of plastic toy accessories, where she was responsible for overseeing the daily management of the packaging department. From January 2001 to March 2012, she worked as the production supervisor at Jinjiang Henghui Packaging Co., Ltd.* (晉江恒輝箱包有限公司), a company that engages in the production of bags and luggages, where she was responsible for monitoring the operations of the production unit. From April 2012 to July 2014, she worked as the supervisor at Jazz Rabbit Apparels, a company that engages in the manufacturing of children apparels and accessories under the "JAZZIT" brand, where she was responsible for overseeing the business operations of the Company. From August 2014 to December 2018, she rejoined Jinjiang Henghui Packaging Co. Ltd.* (晉江恒輝箱包有限公司) as the deputy general manager and was responsible for the management and daily operations of the Company. Ms. Xu is the spouse of Mr. Xu Youjiang.

* For identification purpose only

BIOGRAPHIES OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Yuansheng, aged 35, is our executive Director. Mr. Zhang joined our Group on 6 May 2014 as a manager of the finance department of Hengsheng Animation.

He was appointed as our Director on 18 March 2019 and was re-designated as our executive Director on 9 May 2019. Mr. Zhang is primarily responsible for overseeing the daily operations and financial management of our Group. Mr. Zhang has over 11 years of experience in the accounting and finance industry. From January 2009 to September 2010, he worked as an audit assistant at Dongguan Jinzheng Accountancy* (東莞市金正會計師事務所). From October 2010 to February 2012, he worked as an accountant at Xiamen Canxing Travel Services Ltd.* (廈門燦星國際旅行社有限公司). From February 2012 to April 2014, he worked as an accounting supervisor at Hengsheng Toys. Mr. Zhang obtained a bachelor's degree in management and completed a four-year accounting specialist programme in Putian University in July 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Chi Kit (鍾智傑), aged 34, was appointed as our independent non-executive Director on 10 August 2021. He is also the chairman of our Audit Committee and a member of our Remuneration Committee and Nomination Committee.

Mr. Chung obtained a bachelor's degree in Accountancy from the Hong Kong Polytechnic University in June 2010. He has been a member of the Hong Kong Institute of Certified Public Accountants since 2014. Mr. Chung has over 10 years' experience in auditing, accounting and financial reporting. He started his career in Deloitte Touche Tohmatsu from October 2010 to November 2016, with his last position held as audit manager. From July 2017 to September 2018, he worked in the position of senior accounting and finance manager in Lerthai Group Limited, a company listed on the Main Board of the Stock Exchange (HKEx: 112). Mr. Chung is currently a financial controller of LVGEM (China) Real Estate Investment Company Limited, a company listed on the Main Board of the Stock Exchange (HKEx: 95) and he joined this company since September 2018.

Mr. Liu Dajin (劉大進), aged 56, was appointed as our independent non-executive Director on 19 June 2020.

Mr. Liu has over 30 years of experience in the accounting and audit field. After obtaining his bachelor's degree in accounting in June 1989, he worked as a teaching assistant at the College of Finance, Jimei University (then known as Jimei Finance and Economics Institute* (集美財經學校)). From July 1989 to August 1995, he was the deputy head and lecturer at the College of Finance, Jimei University (then known as Jimei Finance College* (集美財政專科學校)). From September 1995 to May 2001, he was the deputy head and lecturer of the Faculty of Accounting, College of Finance, Jimei University, during which he was also a registered accountant at the Xiamen Jiyou Accounting firm* (廈門集友會計師事務所) from June 1995 to May 1999. From June 2001 to October 2002, he was an assistant professor and head of training at the Faculty of Business Management, Jimei University. From October 2002 to February 2015, he was an assistant professor and associate dean of the Overseas Education College, Jimei University. From March 2015 to August 2015, he was an associate professor at the Faculty of Accounting, Jimei University. From September 2015 to August 2018, he was an associate professor at Chengyi College, Jimei University, then was promoted as a professor in September 2019. Since September 2015, he has been the head of the Faculty of Business Management, Chengyi College, Jimei University. Since August 2008 and August 2013, Mr. Liu has been a consultant and a director of the Association of Management Consulting Xiamen and the Xiamen Association of Accounting, respectively. Mr. Liu graduated from Central University of Finance and Economics* (中央財經大學) (formerly known as Central Finance College* (中央財政金融學院)) with a bachelor's degree in accounting in June 1989. He also attended a postgraduate programme in accounting in the Graduate School of Xiamen University in August 1992. Since 1996, Mr. Liu has been a member of the Chinese Institute of Certified Public Accountants. Mr. Liu has been an independent non-executive director of Mobile Internet (China) Holdings Limited (HKEx: 1439) and China Shanghai Food Holdings Company Limited (HKEx: 1676) since July 2013 and December 2013, respectively. He has been an independent non-executive director of Xiamen Xinde Co., Ltd. (SZEx: 000701) since May 2020.

* For identification purpose only

BIOGRAPHIES OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Deng Zhihuang (鄧志煌), aged 52, was appointed as our independent non-executive Director on 19 June 2020.

Mr. Deng has over 25 years of experience in practising law in the PRC. From April 1995 to March 2005, Mr. Deng worked as a cadre of Fuzhou People's Procuratorate, Fujian* (福建省福州市人民檢察院), where he was responsible for civil administrative work. He then worked as an associate at Fujian Hua Wei Law Firm* (福建華巍律師事務所) from April 2005 to October 2005. In October 2005, he founded Fujian Zhixinheng Law Firm and serves as its senior partner since then. Mr. Deng obtained his bachelor's degree in laws at the Fujian Normal University, the PRC, in June 1992. From April 1995 to March 2005, Mr. Deng worked as a cadre of Fuzhou People's Procuratorate, Fujian (福建省福州市人民檢察院), where he was responsible for civil administrative work. He then worked as an associate at Fujian Hua Wei Law Firm* (福建華巍律師事務所) from April 2005 to October 2005. From October 2005 to August 2019, he founded Fujian Zhixinheng Law Firm and serves as its senior partner since then. He has been the equity senior partner of Beijing Yingke Law Firm Fuzhou Office since August 2019.

SENIOR MANAGEMENT

Ms. Shi Yaya (施雅雅), aged 32, has been the procurement manager of our Group since December 2013 and is primarily responsible for overseeing the administration and coordination of the procurement process.

Ms. Shi has over 6 years of experience in handling procurement matters and managing cost control policies. Since joining our Group in December 2013, Ms. Shi has been the procurement manager and is primarily responsible for formulating procurement and cost control policies, and liaising and maintaining relationships with suppliers. Ms. Shi completed a specialist diploma in English at the Anglo-Chinese College in Fuzhou, China in July 2011.

COMPANY SECRETARY

Ms. Kwong Oi Man Patty, aged 39, was appointed as the Group's company secretary on 30 July 2021. Ms. Kwong is responsible for the company secretarial function. She has over 12 years of experience in company secretarial practice.

Ms. Kwong holds a Bachelor's Degree of Commerce from Monash University in Australia and she is currently a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Kwong currently serves as the company secretary of China Tangshang Holdings Limited, a company listed on the main board of the Stock Exchange (HKEx: 0674) and joint company secretary of China Hongguang Holdings Limited, which is listed on GEM of the Stock Exchange (HKEx: 8646).

* For identification purpose only

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board is committed to establish and ensure high standards of corporate governance and adopt sound corporate governance practices. The Company's corporate governance practices are based on the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules. The Directors strongly believe that reasonable and sound corporate governance practices are essential for the growth of the Group and for safeguarding and enhancing shareholders' interests.

The Board has adopted the Corporate Governance Code (the "**Code**") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**"). To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also enhancing corporate performance and accountability.

The Company has complied with the code provisions of the Code throughout the year ended 31 December 2021 (the "**Financial Year**").

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Model Code**") as its own code governing securities transactions of the Directors. The Company has confirmed, having made specific enquiry of the Directors, that Directors have complied with the standard set out in Model Code throughout the year ended 31 December 2021.

THE BOARD OF DIRECTORS

The key responsibilities of the Board include formulation of the Group's overall strategies, the setting of management targets and the supervision of management performance. The management is delegated with the authority and the responsibility by the Board for the management and administration of the Group. In addition, the Board has also delegated various responsibilities to the Board committees which are Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee of the Company. Further details of the Board committees are set out below in this report.

The Board is entrusted with the overall responsibility of promoting the success of the Company by providing direction and supervision to the Company's business and affairs and to the day-to-day management of the Company, which is delegated to the management. To this end, periodic financial and operational information are provided to the Board for assessing the performance of the Company and its subsidiaries. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The management is responsible for the day-to-day management and operation of the Group and to provide the Board with updates in a timely manner, giving an assessment of the Company's performance and position to enable the Board to discharge its duties.

The Board is responsible for, amongst others, performing the corporate governance duties as set out in the code provision D.3.1 of the CG Code, which include:

- (a) to develop and review the Group's policies and practices on corporate governance and make recommendations;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management;
- (c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
- (e) to review the Group's compliance with the CG Code and disclosure in the corporate governance report.

BOARD COMPOSITION

During the year ended 31 December 2021 and up to the date of this report, the Board comprises of six Directors, three of whom are executive Directors and the other three are independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors

Mr. Xu Youjiang

Ms. Xu Liping

Mr. Zhang Yuansheng

Independent non-executive Directors

Mr. Chung Chi Kit (appointed on 10 August 2021)

Mr. Liu Dajin

Mr. Deng Zhihuang

Mr. Li Danny Fui Lung (resigned on 10 August 2021)

All Directors have appropriate professional qualification or substantive experience and industry knowledge. The Board as a whole has achieved an appropriate balance of skills and experience. The composition of the Board satisfies the requirements of Rules 5.05 and 5.05A of the GEM Listing Rules. There are three independent non-executive Directors and at least one of them has the requisite accounting professional qualification. With more than one-third of the members of the Board as independent non-executive Directors, the Board has a strong independence element in terms of its composition.

The participation of independent non-executive Directors in the Board brings a diverse range of expertise, skills and independent judgment on issues relating to the Group's strategies, performance, conflicts of interests and management process to ensure that the interests of all shareholders of the Company have been duly considered.

The details of Directors are set out in the section headed "Biographies of Board of Directors and Senior Management" on pages 15 to 17 of this report. There are no family or other material relationships among members of the Board.

The chairman of the Board provides leadership to the Board and is also responsible for the effective functioning of the Board in accordance with good corporate governance practice and the overall corporate management of the business development strategies of the Group. The executive Directors are responsible for the implementation of the business strategies, policies and objectives set out by the Board and is accountable to the Board for the overall operations of the Group. These functions and responsibilities are currently being shared by the management team.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Dajin and Mr. Deng Zhihuang were appointed as the independent non-executive Directors on 13 July 2020. Mr. Chung Chi Kit was appointed as the independent non-executive Director on 10 August 2021.

With their professional knowledge and experience, the independent non-executive Directors serve an important function of advising the management of the Group on strategic development and ensure that the Board maintains high standards in financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole. They are also members of the Company's various committees including the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and the risk management committee (the "**Risk Management Committee**").

The Company has received from each of its independent non-executive Directors a written confirmation of his independence in accordance with Rule 5.09 of the GEM Listing Rules, and therefore, considers each of them to be independent.

INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed Director shall receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of directors' responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

Directors will be continuously updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company updates Directors on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

CORPORATE GOVERNANCE REPORT

According to the information provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2021 is as follows:

Name of Directors	Continuous professional development programmes
Executive Directors	
Mr. Xu Youjiang (Chairman)	Yes
Ms. Xu Liping	Yes
Mr. Zhang Yuansheng	Yes
Independent non-executive Directors	
Mr. Chung Chi Kit (appointed on 10 August 2021)	Yes
Mr. Liu Dajin	Yes
Mr. Deng Zhihuang	Yes
Mr. Li Danny Fui Lung (resigned on 10 August 2021)	Yes

The nature of continuous professional development programmes are attending training courses or reading seminar materials and updates relating to the latest development of the GEM Listing Rules and other applicable regulatory requirements.

PRACTICE AND CONDUCT OF BOARD MEETINGS

Schedules and draft agenda of each Board meeting are normally made available to Directors in advance. At least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given.

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are duly kept by the company secretary at the meetings and open for inspection by the Directors.

The Articles contain provision requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Audit Committee meeting to keep the Directors apprised of the latest development and the financial position of the Company and to enable them to make informed decisions.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF DIRECTORS

Details of Directors' attendance at the annual general meeting ("AGM"), Board and board committee meetings in the year 2021 are set out in the following table:

	Number of meetings attended/held					AGM
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee	
Executive Directors						
Mr. Xu Youjiang	7/7	-	-	2/2	1/1	1/1
Ms. Xu Liping	7/7	-	-	-	1/1	1/1
Mr. Zhang Yuansheng	7/7	-	2/2	-	1/1	1/1
Independent Non-executive Directors						
Mr. Chung Chi Kit (appointed on 10 August 2021)	3/3	2/2	1/1	1/1	-	-
Mr. Liu Dajin	7/7	4/4	2/2	2/2	1/1	1/1
Mr. Deng Zhihuang	7/7	4/4	2/2	2/2	-	1/1
Mr. Li Danny Fui Lung (resigned on 10 August 2021)	4/4	2/2	1/1	1/1	-	1/1

BOARD COMMITTEES

The Board has established four committees, including the Audit Committee, the Remuneration Committee, the Nomination Committee and Risk Management Committee with delegated powers for overseeing particular aspects of the Company's affairs. Each of the committees of the Company has been established with written terms of reference.

AUDIT COMMITTEE

The Company established an audit committee on 19 June 2020 in compliance with Rule 5.28 of the GEM Listing Rules. The terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website.

Pursuant to the terms of reference of the Audit Committee, meetings shall be held not less than twice a year and the external auditor may request a meeting if they consider that one is necessary.

The Audit Committee consists of three independent non-executive Directors. The members of the Audit Committee as at the date of this report are as follows:

Mr. Chung Chi Kit (appointed as the Chairman on 10 August 2021)
 Mr. Deng Zhihuang
 Mr. Liu Dajin
 Mr. Li Danny Fui Lung (resigned as the Chairman on 10 August 2021)

Mr. Li Danny Fui Lung was the Chairman of the Audit Committee between 1 January 2021 and 10 August 2021. Mr. Chung Chi Kit was appointed as the Chairman of the Audit Committee with effect from 10 August 2021.

The primary duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to monitor the integrity of the Company's annual report and interim financial reports before submission to the Board.

The Audit Committee is satisfied with their review of the auditor's remuneration, the independence of the auditor, Grant Thornton Hong Kong Limited ("GT"), and recommended the Board to re-appoint GT as the Company's auditor for the year ending 31 December 2022, which is subject to the approval of shareholders at the forthcoming AGM.

The Company's annual results for the year ended 31 December 2021 have been reviewed by the Audit Committee, before the annual results were submitted to the Board for approval.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 19 June 2020 in compliance with Rule 5.34 of the GEM Listing Rules. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website.

Pursuant to the terms of reference of the Remuneration Committee, meetings shall be held at least once a year and additional meetings should be held if the committee shall so request.

The members of the Remuneration Committee consists of one executive Director and three independent non-executive Directors. The members of the Remuneration Committee as at the date of this report are as follows:

Mr. Deng Zhihuang (Chairman)
Mr. Chung Chi Kit (appointed on 10 August 2021)
Mr. Liu Dajin
Mr. Zhang Yuansheng
Mr. Li Danny Fui Lung (resigned on 10 August 2021)

The primary duties of the Remuneration Committee include but without limitation: (a) making recommendations to the Directors regarding the policy and structure for the remuneration of all the Directors and the senior management of the Group and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to the Board on the remuneration packages of the Directors and the senior management of the Group; and (c) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

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

During the year ended 31 December 2021, the Remuneration Committee met twice to review, determine and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the executive Directors, independent non-executive Directors and senior management, assessing performance of executive Directors and other related matters.

CORPORATE GOVERNANCE REPORT

Senior Management's remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2021 falls within the following bands:

RMB	Number of individuals
Nil to RMB1,000,000	8

Details of the remuneration of the Directors and the five highest paid individuals are set out in note 10 to the audited consolidated financial statements.

REMUNERATION POLICY

The remuneration policy of the Group for the Directors and the senior management was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the performance of the Group and the individual performance of the Directors and the senior management.

NOMINATION COMMITTEE

The Company established a nomination committee on 19 June 2020 in compliance with paragraph A.5.1 of the CG Code. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website.

Pursuant to the terms of reference of the Nomination Committee, meeting shall be held at least once a year and additional meetings should be held if the committee shall so request.

The members of the Nomination Committee consists of one executive Director and three independent non-executive Directors. The members of the Nomination Committee as at the date of this report are as follows:

Mr. Liu Dajin (Chairman)
Mr. Deng Zhihuang
Mr. Chung Chi Kit (appointed on 10 August 2021)
Mr. Xu Youjiang
Mr. Li Danny Fui Lung (resigned on 10 August 2021)

The primary function of the Nomination Committee is (a) to review the structure, size and composition of the Board on regular basis; (b) identify individuals suitably qualified to become Board members; (c) assess the independence of independent non-executive Directors; and (d) make recommendations to the Board on relevant matters relating to the appointment or reappointment of Directors.

Nomination policy

The Board, through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills critical to the Group's business to enable the Board to make sound and well considered decisions. Collectively, they have competencies in areas which are relevant and valuable to the Group.

Nomination Criteria

In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

- (i) the candidate's character and integrity;
- (ii) the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the Board Diversity Policy (as defined below) that are relevant to the Company's business and corporate strategy;
- (iii) any measurable objectives adopted for achieving diversity on the Board;
- (iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules;
- (v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- (vi) willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- (vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

The Company has put in place the following director nomination procedures:

Appointment of New and Replacement Directors

- (i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.
- (ii) Upon compilation and interview of the list of potential candidates, the Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from 13 July 2020 (the "**Listing Date**"), unless terminated by either party thereto giving at least three months' written notice before the expiry of the then existing term.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended as the parties shall agree in writing, unless terminated by either party thereto giving at least one month's written notice before the expiry of the then existing term.

CORPORATE GOVERNANCE REPORT

The procedure and process of appointment, re-election and removal of Directors are laid down in the Articles. The Nomination Committee is responsible for reviewing Board composition, monitoring the appointment of Directors and assessing the independent non-executive Directors.

According to the Articles, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. In addition, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the GEM Listing Rules.

Nomination of Directors by Shareholder

Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the company secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the GEM Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

RISK MANAGEMENT COMMITTEE

The Company established a risk management committee on 19 June 2020 with written terms of reference in compliance with the Listing Rules and the CG Code Provisions. The terms of reference setting out the Risk Management Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website.

Pursuant to the terms of reference of the Risk Management Committee, meetings shall be held at least once a year and additional meetings should be held if the committee shall so request.

The members of the Risk Management Committee consists of three executive Director and one independent non-executive Director. The members of the Risk Management Committee as at the date of this report are as follows:

Mr. Xu Youjiang (Chairman)
Ms. Xu Liping
Mr. Zhang Yuansheng
Mr. Liu Dajin

The primary function of the Risk Management Committee is (a) to regularly identify existing and emerging risks in the business operations of the Company; (b) to review and assess the risk profile and risk management strategies of the Company and make recommendations; (c) to establish precautionary risk management and internal control systems of the Company and provide mitigating solutions; and (d) to monitor the implementation of the risk management measures of the Company and to review the effectiveness and adequacy of the risk management system of the Company.

The Risk Management Committee regularly identifies risks in relation to business operations of the Company and takes any precautionary measures against unforeseen risk.

During the year ended 31 December 2021, the Risk Management Committee met once to discuss the risk associated with overseas and export business of the Group.

ACCOUNTABILITY AND AUDIT

Directors' and auditor's responsibilities for the audited consolidated financial statements

All Directors understand and acknowledge their responsibility for ensuring that the Group's audited consolidated financial statements for each financial year are prepared to provide a true and fair view of the state of affairs, the financial results and cash flows of the Group in accordance with the listing rules and the requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") and the applicable accounting standards. In preparing the audited consolidated financial statements for the year ended 31 December 2021, the Board has adopted appropriate and consistent accounting policies and made prudent, fair and reasonable judgments and estimates. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movement of the Group at any time. The Directors confirm that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of auditor about their reporting responsibilities on the audited consolidated financial statements is set out in the Independent Auditor's Report.

The reporting responsibilities of the Company's auditor, are set out in the Independent Auditor's Report with full text included from pages 42 to 47 of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2021, the remuneration for the audit services provided by the Company's auditor to the Group was as follows:

Type of services	Amount RMB'000
Annual audit service for the year ended 31 December 2021 – Grant Thornton Hong Kong Limited	730
Total	730

The auditor's remuneration provided by the Company's auditor, are set out in note 8 to the audited consolidated financial statements.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report, etc..

The Directors review the Group's corporate governance policies and compliance with the CG Code each financial year and comply with the "Comply or Explain" principle in the corporate governance report which is or will be included in the reports of the Company.

BOARD DIVERSITY POLICY

The Company has adopted a Board diversity policy in accordance with the requirement as set out in the CG Code, which is summarised as below:

The Board diversity policy of the Company specifies that in designing the composition the Board, Board diversity shall be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board members' appointment will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity of the Board. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, age, culture, ethnicity and educational background, professional experience, knowledge and skills.

The Company discloses the composition of the Board in the corporate governance report every year and the Nomination Committee oversees the implementation of the Board diversity policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an on-going dialogue with the shareholders and in particular, through AGMs or other general meetings to communicate with the shareholders and encourage their participation.

The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings. All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the GEM Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholders' meeting.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirements.

(a) Significant Changes in the Constitutional Documents

For the year ended 31 December 2021, there has been no significant change in the constitutional documents of the Company. The Articles are available on the websites of the Stock Exchange and the Company.

(b) General Meetings with Shareholders

The Company's AGM will be held on 31 May 2022.

SHAREHOLDERS' RIGHTS

(a) Convening an extraordinary general meeting

Pursuant to Articles, extraordinary general meetings shall be convened on the written 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 meeting shall be held within three 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 (themselves) or any of them representing more than one-half of the total voting rights of all of them 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. Shareholders also have the right to propose a person for election as a Director, the procedures are available on the websites of the Company and the Stock Exchange.

(b) Enquiries to the Board

Shareholders may put forward enquiries to the Board to the extent such information is publicly available to the company secretary who is responsible for forwarding communications relating to matters within the Board's purview to the executive Directors of the Company, communications relating to matters within a Board committee's area of responsibility to the chairman of the appropriate committee, and communication relating to ordinary business matters, such as suggestions, enquiries and consumer complaints, to the appropriate management of the Company, in writing to the principal place of business of the Company in Hong Kong.

(c) Putting forward proposals at a general meeting

Shareholders are welcome to put forward proposals relating to the operations and the management of the Group to be discussed at shareholders' meetings. The proposals shall be sent to the company secretary by a written requisition. Shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures set out in "Convening an extraordinary general meeting" above.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public. The Company updates its shareholders on its latest business developments and financial performance through annual, interim and quarterly reports. The corporate website of the Company (www.yikwo.cn) has provided an effective communication platform to the public and the shareholders.

DIVIDEND POLICY

Subject to the approval of the shareholders and requirement of the relevant law, the Company shall pay annual dividends to the shareholders if the Group is profitable, operations environment is stable and there is no significant investment or commitment made by the Group. The Company's ability to pay dividends will depend upon, among other things, the Group's actual and expected financial performance, retained earnings and distributable reserves, liquidity position, future cash requirements and availability, restriction on payments of dividends that may be imposed by the Group's lenders, the general market conditions and any other factor that the Board may consider appropriate.

Any declaration and payment of future dividends under the Dividend Policy are subject to the Board's determination that the same would be in the best interests of the Group and the shareholders of the Company as a whole.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

During the period from 1 January 2021 to 30 July 2021, Mr. Yeung Tsz Kit Alban. Following to the resignation of Mr. Yeung Tsz Kit Alban as the company secretary on 30 July 2021, Ms. Kwong Oi Man Patty was appointed as the company secretary with effect from 30 July 2021. Company secretary is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed. All Directors have access to the advice and services of the company secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, the company secretary is responsible for facilitating communications among Directors as well as with management.

During the year ended 31 December 2021, the company secretary has undertaken more than 21 hours of relevant professional training in compliance with Rule 5.15 of the GEM Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for establishing and maintaining appropriate and effective risk management and internal control systems of the Group. The Group's systems of risk management and internal control include a defined management structure with limits of authority, which is designed to help achieve business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislations and regulations. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Board is ultimately responsible for the risk management of the Group and it has delegated to Risk Management Committee to carry out the risk identification and monitoring procedures. The objectives of the risk management are to enhance the governance and corporate management processes as well as to safeguard the Group against unacceptable levels of risks and losses.

During the Reporting Period, the Board had outsourced its internal audit function to an independent internal audit firm (the "Internal Auditor"). The Internal Auditor reports directly to the Audit Committee once a year on all internal audit matters. The Audit Committee reviewed the internal audit report and would monitor the implementation of the improvements required on internal control weaknesses identified.

Even though the Group does not maintain an internal audit function, the Board has overall responsibility for the risk management and internal control systems and for reviewing its effectiveness. Based on the review of the Group's internal control systems by the Internal Auditor, the Directors were satisfied that effective internal control measures as appropriate to the Group for the year ended 31 December 2020 were implemented properly and that no significant areas of weaknesses were identified.

LOOKING FORWARD

The Group will continue to review its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the CG Code.

REPORT OF THE BOARD OF DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

CORPORATE REORGANISATION AND SHARE OFFER

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 13 December 2018.

The shares of the Company have been listed on GEM of the Stock Exchange by way of the share offer since 13 July 2020.

In connection with the listing, the companies comprising the Group underwent a reorganisation (the “**Group Reorganisation**”). Pursuant to the Group Reorganisation, the Company became the holding company of the other members of the Group. Further details of the Group Reorganisation are set out in the section headed “History, Reorganisation and Group Structure” of the Prospectus.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 1 to the audited consolidated financial statements. The principal activities of the Group are predominately the provision of the design and development, manufacturing and sales of disposable plastic food storage containers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2021 are set out in the audited consolidated financial statements on page 48.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2021.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2021 is set out in the section headed “Management Discussion and Analysis” on the pages 9 to 14 of this report. An analysis of the Group’s performance during the year using financial key performance indicators is set out in the section headed “Management Discussion and Analysis” of this report.

PROSPECTS

Looking forward, the Directors consider that the Group will continue to be affected by external opportunities and challenges such as the popularity of environmentally friendly disposable plastic food storage containers, advances in production technologies and competition from substitutes, such as disposable food storage containers in the market made of other materials. The Directors are of the view that maintaining product safety and focusing on environmental protection, brand promotion, expansion of sales channels and product customisation remain to be the key drivers for the growth of the disposable plastic storage container business. With the Group’s experienced management team and reputation in the market, the Directors consider that the Group is well-positioned to compete against its competitors under such future challenges that are commonly faced by all competitors, and the Group will continue to strengthen its market position in the industry and expand its market share by the implementation of the Group’s business plans through utilisation of the net proceeds from the listing of the Company’s shares on GEM of the Stock Exchange of Hong Kong on 13 July 2020.

In view of the a rapidly growing trend over the past few years of the film industry and enhancement of regulatory environment and favorable policies in China, the Directors believe that the investment in film projects at this moment will enable it to leverage the opportunities that the pandemic in China has gradually eased and popular entertainment needs will rebound, and seize the opportunity in the emerging film industry. For which, the Group entered into the equity sale and purchase agreements to acquire 100% equity interest of June Pictures & Media Limited with total consideration RMB20,571,430 during the period. The transaction has not been completed at the date of the quarter report. The Directors believe that investment in the target company will bring considerable income to the Group and is a suitable investment, which will also expand the business scope of the Group.

REPORT OF THE BOARD OF DIRECTORS

FINANCIAL SUMMARY

A financial summary of the published results and of the assets and liabilities of the Group is set out on page 7 to 8 of this report.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group did not have any plans for material investments and capital assets during the year ended 31 December 2021.

USE OF PROCEEDS AND COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Details of the use of proceeds and comparison of business objectives with actual business progress are set out in the section headed "Management Discussion and Analysis" on page 13 to 14 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2021 are set out in note 13 to the audited consolidated financial statements.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2021.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2021 are set out in note 21 to the audited consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year ended 31 December 2021 are set out in the consolidated statement of changes in equity on page 50.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB33.0 million (2020: RMB35.6 million). Details of the reserves of the Company as at 31 December 2021 are set out in note 22 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the listing and during the year ended 31 December 2021, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities for the year ended 31 December 2021.

DIRECTORS

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

Executive Directors

Mr. Xu Youjiang

Ms. Xu Liping

Mr. Zhang Yuansheng

Independent non-executive Directors

Mr. Chung Chi Kit (appointed on 10 August 2021)

Mr. Liu Dajin

Mr. Deng Zhihuang

Mr. Li Danny Fui Lung (resigned on 10 August 2021)

Pursuant to article 16.19 of the Articles, at each annual general meeting, at least one-third of the Directors shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

CONFIRMATION OF INDEPENDENCE

Each of the independent non-executive Director has given the Company an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the independent non-executive Directors are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

(a) Executive Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant service contract), which may be terminated by not less than three month's notice served by either party on the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors and removal and retirement by rotation of Directors.

(b) Independent non-executive Directors

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a period of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant letter of appointment), which may be terminated by either party giving 1 month notice to the other party. The appointments are subject to the provisions of the Articles with regard to vacation of office of Directors and removal and retirement by rotation of Directors. Same for the directors' fee, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director and a member of any board committees of the Company.

Same as disclosed above, no Director has entered into any service agreement with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

REPORT OF THE BOARD OF DIRECTORS

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emolument of the Directors is recommended by the Remuneration Committee by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities and performance.

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 10 to the audited consolidated financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 15 to 17 of this report.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Same as disclosed in this report, none of the Directors or an entity connected with any of them had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries, parent company or subsidiaries of the parent company was a party and subsisting at any time during or at the end of the year ended 31 December 2021.

As at 31 December 2021, no contract of significance had been entered into between the Company, or any of its subsidiaries and Mr. Xu and Prize Investment Limited (the "**Controlling Shareholders**") of the Company or any of their subsidiaries.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Same as disclosed in this report, at no time during the year ended 31 December 2021 was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its specified undertakings as defined in the Companies (Report of the Board of Directors) Regulation or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

As at 31 December 2021, the Company did not enter into or have any management and/or administration contracts in respect of the whole or any principal business of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Same as disclosed in the Prospectus and above, the Directors are not aware of any business and interest of the Directors nor the Controlling Shareholders of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interests which any such person has or may have with the Group during the year ended 31 December 2021 and up to the date of this report.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

Mr. Xu Youjiang and Prize Investment Limited ("**Prize**") entered into a deed of non-competition dated 26 June 2020 (the "**Deed of Non-Competition**") in favour of the Company (for itself and each of its subsidiaries), pursuant to which each of the Controlling Shareholders has, unconditionally and irrevocably, undertaken to the Company in the Deed of Non-Competition that she/it will not, and will procure her/its close associates (other than members of the Group) not to, for herself/itself or jointly with or acting for any other person, firm or company as shareholder(s), director(s), partner(s), agent(s), employee(s) or otherwise, and whether or not for profit, remuneration or other purpose, directly or indirectly be involved or engaged in or undertake any business (other than the business of the Group) that directly or indirectly competes, or may compete, with the Group's business or undertaking (the "**Restricted Activity**"), or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time except where the Controlling Shareholders and/or her/its close associates hold less than 5% of the total issued shares of any company (whose shares are listed on the Stock Exchange or other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group and they do not control 10% or more of the composition of the board of directors of such company.

Further, each of the Group's Controlling Shareholders has undertaken that if any new business investment or other business opportunity relating to the Restricted Activity (the "**Competing Business Opportunity**") is identified by or made available to her/it or any of her/its close associates, she/it shall, and shall procure that her/its close associates shall, refer such Competing Business Opportunity to the Company on a timely basis.

For further details of the Deed of Non-Competition, please refer to the section headed "Relationship with the Controlling Shareholders – Non-competition undertaking and corporate governance measures to manage conflicts of interests" in the Prospectus.

Each of the Controlling Shareholders has confirmed to the Company of her/its compliance with the Deed of Non-Competition during the year ended 31 December 2021 and up to the date of this report. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the Controlling Shareholders during the year ended 31 December 2021 and up to the date of this report.

REPORT OF THE BOARD OF DIRECTORS

DISCLOSURE OF DIRECTORS' INTERESTS

a) Director's and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2021, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(i) Long positions in Shares and underlying Shares

Name of Director	Capacity/Nature of interest	Number of Shares	Long/short position	Percentage of shareholding
Mr. Xu Youjiang ("Mr. Xu")	Interest of a controlled corporation ^(Note 1)	301,500,000 ^(Note)	Long	50.25%
Ms. Xu Liping ("Ms. Xu")	Interest of spouse ^(Note 2)	301,500,000 ^(Note)	Long	50.25%

Note

- (1) Mr. Xu holds the entire issued share capital of Prize. Accordingly, Mr. Xu is deemed to be interested in the shares held by Prize Investment Limited under the SFO.
- (2) Ms. Xu Liping is the spouse of Mr. Xu and is therefore deemed to be interested in the shares in which Mr. Xu is interested under the SFO.

REPORT OF THE BOARD OF DIRECTORS

b) Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the date of this report, the interests and short positions of the person (other than the Directors or chief executive of the Company) or company in the Shares, underlying Shares and debentures of the Company which was required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Number and class of securities	Long/short position	Approximate percentage of shareholding in the Company
Prize Investment Limited	Beneficial owner	301,500,000 ordinary shares	Long	50.25%
Merit Winner Limited ("Merit Winner")	Beneficial owner	67,500,000 ordinary shares	Long	11.25%
Mr. Hui Man Kit ("Mr. Hui")	Interest of a controlled corporation ^(Note 1)	67,500,000 ordinary shares	Long	11.25%
Ms. Hui Mei Nga	Interest of spouse ^(Note 2)	67,500,000 ordinary shares	Long	11.25%
Sun Kong Investments (BVI) Limited ("Sun Kong")	Beneficial owner	54,000,000 ordinary shares	Long	9.00%
Mr. Wong Hing Nam ("Mr. Wong")	Interest of a controlled corporation ^(Note 3)	54,000,000 ordinary shares	Long	9.00%
Ms. Chan Lai Yin	Interest of spouse ^(Note 4)	54,000,000 ordinary shares	Long	9.00%

Notes:

1. The entire issued share capital of Merit Winner was held by Mr. Hui. Accordingly, Mr. Hui is deemed to be interested in the Shares held by Merit Winner under the SFO.
2. Ms. Hui Mei Nga is the spouse of Mr. Hui and is therefore deemed to be interested in the Shares in which Mr. Hui is interested under the SFO.
3. The entire issued share capital of Sun Kong was held by Mr. Wong. Accordingly, Mr. Wong is deemed to be interested in the Shares held by Sun Kong under the SFO.
4. Ms. Chan Lai Yin is the spouse of Mr. Wong and is therefore deemed to be interested in the Shares in which Mr. Wong is interested under the SFO.

Same as disclosed above, as at the date of this report and so far as is known to the Directors, no person, other than the Directors and chief executive and substantial shareholders of the Company and other persons whose interests are set out in the section "A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "B. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short positions in the Shares or underlying shares and/or the debentures of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

REPORT OF THE BOARD OF DIRECTORS

INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Grand Moore Capital Limited ("**Grand Moore**") to be the compliance adviser. As informed by Grand Moore, neither Grand Moore nor any of its directors or employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement dated 12 June 2019 entered into between the Company and Grand Moore (the "**Compliance Adviser Agreement**") as at 31 December 2021.

Pursuant to the Compliance Adviser Agreement, Grand Moore has received and will receive fees for acting as the Company's compliance adviser.

EQUITY-LINKED AGREEMENTS

On 10 September 2021, the Company entered into the equity sale and purchase agreements with Mr. Xu, Yeewo Pictures and Mr. Gong, pursuant to which, the Company has conditionally agreed to acquire, and Mr. Xu, Yeewo Pictures and Mr. Gong have conditionally agreed to collectively sell 100% of the issued share capital of the Target Company, at a consideration of RMB72,000,000 (equivalent to HK\$86,400,000). The Consideration shall be satisfied by the Company by way of: (i) issue and allotment of 336,000,000 new shares of the Company to Mr. Xu; (ii) issue and allotment of 72,000,000 new shares of the Company to Yeewo Pictures; and (iii) issue and allotment of 72,000,000 new shares of the Company to Mr. Gong, at an issue price of HK\$0.18 per new share, resulting in the total value of HK\$86,400,000 (equivalent to approximately RMB72,000,000).

On 20 January 2022, the Company, Mr. Xu, Yeewo Pictures and Mr. Gong entered into the Supplemental Agreements to adjust certain terms of the Acquisition, given that the interest of film project held by the Target Company has been lowered from 35% to 10% by mutual agreements among the parties. Pursuant to the Supplemental Agreements, the total consideration of RMB20,571,430 shall be satisfied by the Company by way of: (i) issue and allotment of 74,482,760 new shares of the Company to Mr. Xu; (ii) issue of a debt instrument in the sum of RMB3,085,714 to Yeewo Pictures; and (iii) issue of a debt instrument in the sum of RMB3,085,714 to Mr. Gong. The completion of the transaction is conditional upon fulfilment or waiver (as the case may be) of certain conditions. Upon the completion, the Company will hold 100% equity interest in the Target Company and the financial statements of the Target Company will be consolidated into the consolidated financial statements of the Group.

Details of the above transaction were set out in the announcements of the Company dated 10 September 2021 and 20 January 2022.

Save as disclosed above, the Group did not enter into any equity-linked agreements during the year ended 31 December 2021 or subsisted at the end of the year.

DEBENTURES

The Company did not issue any debentures during the year ended 31 December 2021.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Directors are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operations of the Group. During the year ended 31 December 2021, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

REPORT OF THE BOARD OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of revenue for the year ended 31 December 2021 attributable to the Group's major customers and the percentage of purchases for the year ended 31 December 2021 attributable to the Group's major suppliers were as follows:

- (1) The aggregate amount of revenue attributable to the Group's five largest customers represented approximately 31.4% of the Group's revenue. The amount of revenue from the Group's largest customer represented approximately 7.3% of the Group's total revenue.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 70.1% of the Group's revenue. The amount of purchases from the Group's largest supplier represented approximately 17.4% of the Group's total purchases.

None of the Directors nor any of their close associates nor any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year ended 31 December 2021.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2021 are set out in note 24 to the consolidated financial statements.

Same as aforesaid, none of the related party transactions set out in note 24 to the consolidated financial statements constitute a "connected transaction" or "continuing connected transaction" subject to independent shareholders' approval, annual review and all disclosure requirements under Chapter 20 of the GEM Listing Rules because either (i) the transaction was an one-off transaction which took place before the Listing; or (ii) the transaction was continuous in nature but had been discontinued before the Listing.

CORPORATE GOVERNANCE

The Company is firmly committed to maintaining and ensuring a high level of corporate governance standards and will review and improve the corporate governance practices and standards constantly.

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 18 to 30 of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive or similar rights under the laws of Caymans Islands or the Articles which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

REPORT OF THE BOARD OF DIRECTORS

PERMITTED INDEMNITY PROVISION

Subject to the Companies Ordinance, every Director is entitled under the Company's Articles to be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as he or she shall incur or sustain through their own fraud or dishonesty.

The Company has maintained a directors and officers liability insurance during the year ended 31 December 2021. To the extent as permitted by the Companies Ordinance, a directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 168 employees (2020: 150 employees). The staff costs, including Directors' emoluments, of the Group were approximately RMB17.1 million for the year ended 31 December 2021 (2020: approximately RMB14.4 million). Remuneration is determined with reference to market terms and in accordance with the performance, qualification(s) and experience of each individual employee. Discretionary bonuses, based on each individual's performance, are paid to employees as recognition and in reward for their contributions. Other fringe benefits such as medical insurance, retirement benefits and other allowances are offered to all the Group's employees.

EVENTS AFTER THE REPORTING PERIOD

On 20 January 2022, the Company, Mr. Xu, Yeewo Pictures and Mr. Gong entered into the Supplemental Agreements to adjust certain terms of the Acquisition, given that the interest of film project held by the Target Company has been lowered from 35% to 10% by mutual agreements among the parties. Pursuant to the Supplemental Agreements, the total consideration of RMB20,571,430 shall be satisfied by the Company by way of: (i) issue and allotment of 74,482,760 new shares of the Company to Mr. Xu; (ii) issue of a debt instrument in the sum of RMB3,085,714 to Yeewo Pictures; and (iii) issue of a debt instrument in the sum of RMB3,085,714 to Mr. Gong. The completion of the transaction is conditional upon fulfilment or waiver (as the case may be) of certain conditions. Upon the completion, the Company will hold 100% equity interest in the Target Company and the financial statements of the Target Company will be consolidated into the consolidated financial statements of the Group.

On 4 March 2022, the Company entered into a non-legally binding memorandum of understanding with Mr. Hu Kun in relation to a possible acquisition of the entire equity interest in Beijing Youpinhui Trading Co., Ltd (北京優拼匯商貿有限公司) by the Group.

Same as disclosed above, the Group did not make any other subsequent events occurred after 31 December 2021, which may have a significant effect, on the assets and liabilities of future operation of the Group.

RELATIONSHIP WITH STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its key stakeholders, including its employees, customers and suppliers, to meet its immediate and long-term business goals. During the year ended 31 December 2021, there were no material and significant disputes between the Group and its employees, customers and suppliers.

The Group recognises employees as one of its valuable assets and strictly complies with the labour laws and regulations and reviews regularly the existing staff benefits for improvement. Apart from the reasonable remuneration packages, the Group also offers other employee benefits, such as medical insurance. The Group provides good quality services to its customers and keeps a database for direct communications with recurring customers for developing a long-term trusted relationship. The Group also maintains effective communication and develops a long-term business relationship with its suppliers.

REPORT OF THE BOARD OF DIRECTORS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report, will be published in May 2022. For details, please refer to the Company's website.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 31 May 2022, Tuesday, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain entitlements to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from 26 May 2022, Thursday to 31 May 2022, Tuesday, both days inclusive, during which period no transfer of Shares will be registered.

Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 pm on 25 May 2022.

AUDITOR

The consolidated financial statements of the Group for the year have been audited by Grant Thornton Hong Kong Limited who shall retire at the forthcoming annual general meeting and, being eligible, offered themselves for re-appointment. A resolution will be submitted to the annual general meeting to re-appoint Grant Thornton Hong Kong Limited as auditor of the Company.

By order of the Board

Yik Wo International Holdings Limited

Mr. Xu Youjiang

Chairman

31 March 2022

INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Yik Wo International Holdings Limited
(incorporated in the Cayman Islands with limited liability)**

OPINION

We have audited the consolidated financial statements of Yik Wo International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 48 to 94, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**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 ("**HKSAs**") 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.

KEY AUDIT MATTERS

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

Expected Credit Losses (“ECL”) Assessment of Trade Receivables

Refer to the summary of significant accounting policies in note 2.7, note 17 and 26.2 to the consolidated financial statements.

Key Audit Matter

At 31 December 2021, the carrying amount of the Group's trade receivables amounted to approximately RMB38,068,000 net of nil ECL allowance.

The ECL assessment of trade receivables involved significant management's judgment and use of estimates to ascertain the recoverability of trade receivables.

ECL allowance for trade receivables are based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, aging of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

We have identified the ECL assessment of trade receivables as a key audit matter because the assessment involves significant management's judgment and use of estimates.

How the matter was addressed in our audit

Our procedures in relation to ECL assessment of the trade receivables included the following:

- Obtained the Group's policies on credit policy given to customers and an understanding of how the management assesses the impairment of trade receivables under the ECL model;
- Tested, on a sample basis, the ageing analysis of the trade receivables by comparing with the relevant sales invoices;
- Assessed the reasonableness of management's ECL allowance estimates by examining the information used by management to form such judgements, on a sample basis, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward looking information, and assessed whether there was an indication of management bias when recognising ECL allowance; and
- Involved the valuation specialist to assess the ECL and compared to the management's estimation.

INDEPENDENT AUDITOR'S REPORT

Valuation of Inventories

Refer to the summary of significant accounting policies in note 2.9 and note 16 to the consolidated financial statements.

Key Audit Matter

At 31 December 2021, the Group had inventories of approximately RMB7,266,000 net of nil provisions. The directors make significant judgements regarding the value of inventory provisions for slow-moving and obsolescence.

In arriving at the net realisable value of inventories, estimation and management judgement, including historical ageing statistics and price of future sales of inventories, were exercised.

We have identified valuation of inventories as a key matter to our audit because the calculations are subject to significant judgements of management.

How the matter was addressed in our audit

Our procedures in relation to assessing the appropriateness of the valuation of the inventories included the following:

- Obtained an understanding of how the management identifies the slow-moving and obsolete inventories and assessed the amount of allowance for inventories;
- Tested, on a sample basis, the ageing of inventories;
- Tested, on a sample basis, the costs expected to incur to bring the raw materials into finished goods and compared to historical data;
- Compared, on a sample basis, the volume and selling price of subsequent sales to quantity and cost of inventories at reporting period end; and
- Evaluated, on a sample basis, the sufficiency of allowance where the estimated net realisable value is lower than the cost.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2021 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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.

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT

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

Grant Thornton Hong Kong Limited

Certified Public Accountants

11th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

31 March 2022

Chi-Kit Shaw
Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	5	262,637	233,181
Costs of sales		(186,689)	(164,015)
Gross profit		75,948	69,166
Other income	6	266	143
Selling expenses		(12,232)	(11,543)
Administrative and other operating expenses		(15,919)	(25,008)
Profit from operations		48,063	32,758
Finance costs	7	(195)	(212)
Profit before income tax	8	47,868	32,546
Income tax expense	9	(12,637)	(11,786)
Profit for the year		35,231	20,760
Other comprehensive income, net of tax:			
<i>Items that will be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operation recognised		130	484
Total comprehensive income for the year		35,361	21,244
Earnings per share attributable to equity holders of the Company			
Basic and diluted	12	RMB5.87 cents	RMB3.99 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	44,797	45,596
Intangible assets	14	2,500	4,500
		47,297	50,096
Current assets			
Inventories	16	7,266	7,327
Trade and other receivables	17	38,552	33,870
Cash and cash equivalents	18	107,638	72,396
		153,456	113,593
Current liabilities			
Trade and other payables	19	28,349	26,688
Income tax payable		3,539	2,564
Lease liabilities	20	996	944
		32,884	30,196
Net current assets			
		120,572	83,397
Total assets less current liabilities			
		167,869	133,493
Non-current liabilities			
Lease liabilities	20	2,430	3,415
Net assets			
		165,439	130,078
EQUITY			
Share capital	21	5,418	5,418
Reserves	22	160,021	124,660
Total Equity			
		165,439	130,078

Xu Youjiang
Director

Zhang Yuansheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share Capital RMB'000 (Note 21)	Share Premium RMB'000 (Note 22) (note (i))	Statutory Reserve RMB'000 (Note 22) (note (i))	Translation Reserve RMB'000 (Note 22) (note (i))	Retained Profits RMB'000 (note (i))	Total RMB'000
As at 1 January 2020	1	20,000	9,829	(96)	49,119	78,853
Profit for the year	—	—	—	—	20,760	20,760
Other comprehensive income						
– Exchange differences on translation of foreign operation recognised	—	—	—	484	—	484
Total comprehensive income for the year	—	—	—	484	20,760	21,244
Transaction with owner						
Transfer to statutory reserve	—	—	3,247	—	(3,247)	—
Dividend declared (note 11)	—	—	—	—	(7,522)	(7,522)
Issuance of ordinary shares pursuant to Capitalisation Issue (note 21(i))	4,063	(4,063)	—	—	—	—
Issuance of ordinary shares pursuant to Share Offer (note 21(ii))	1,354	36,149	—	—	—	37,503
As at 31 December 2020 and 1 January 2021	5,418	52,086	13,076	388	59,110	130,078
Profit for the year	—	—	—	—	35,231	35,231
Other comprehensive income						
– Exchange differences on translation of foreign operation recognised	—	—	—	130	—	130
Total comprehensive income for the year	—	—	—	130	35,231	35,361
Transaction with owner						
Transfer to statutory reserve	—	—	3,791	—	(3,791)	—
As at 31 December 2021	5,418	52,086	16,867	518	90,550	165,439

Note

- (i): Total amount of RMB160,021,000 as at 31 December 2021 (2020: RMB124,660,000) represents the amount of reserves as presented in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Profit before income tax		47,868	32,546
Adjustments for:			
Depreciation of property, plant and equipment		9,937	7,177
Amortisation of intangible assets		2,000	2,000
Loss on disposal of property, plant and equipment		155	23
Interest income		(266)	(143)
Interest expense for lease arrangements		195	212
Operating cash flows before working capital changes		59,889	41,815
Decrease/(Increase) in inventories		61	(937)
(Increase)/Decrease in trade and other receivables		(4,665)	6,847
Increase/(Decrease) in trade and other payables		1,661	(924)
Cash generated from operations		56,946	46,801
Interest paid		(195)	(212)
Income taxes paid		(11,662)	(11,489)
<i>Net cash generated from operating activities</i>		45,089	35,100
Cash flows from investing activities			
Interest received		266	143
Purchase of property, plant and equipment		(9,431)	(23,798)
Proceeds from disposal of property, plant and equipment		154	67
<i>Net cash used in investing activities</i>		(9,011)	(23,588)
Cash flows from financing activities			
Payment of lease liabilities		(966)	(721)
Transactions costs directly attributable to issue of ordinary shares		—	(19,226)
Proceeds from Share Offer		—	54,176
<i>Net cash (used in)/generated from financing activities</i>		(966)	34,229
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		72,396	26,171
Effect of foreign exchange rate changes		130	484
Cash and cash equivalents at the end of the year	18	107,638	72,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Yik Wo International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) was incorporated as an exempted company in the Cayman Islands on 13 December 2018 with limited liability. The addresses of the Company’s registered office and principal place of business are PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, People’s Republic of China (the “**PRC**”), respectively.

The Company is an investment holding company and its subsidiaries are principally engaged in the design and development, manufacturing and sales of disposable plastic food storage containers in the PRC.

The Company’s immediate and ultimate holding company is Prize Investment Limited (“**Prize Investment**”), a company incorporated in the British Virgin Islands (the “**BVI**”). The ultimate controlling party of the Group is Mr. Xu Youjiang (“**Mr. Xu**” or the “**Controlling Shareholder**”).

Since 13 July 2020, the Company’s shares are listed on GEM of the Stock Exchange of Hong Kong Limited (“**GEM of the Stock Exchange**”).

These consolidated financial statements for the year ended 31 December 2021 were approved for issue by the board of directors on 31 March 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These annual consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group’s financial statements, if any, are disclosed in note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The consolidated financial statements have been prepared on the historical cost basis. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousands ("RMB'000"), except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are disclosed in note 4 to the consolidated financial statements.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group 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. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Basis of consolidation *(continued)*

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost also includes directly attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.3 Foreign currency translation

Items included in the financial statements of each of the Group's entity are measured using the currency that best reflects the economic substance of the underlying events and circumstance relevant to the entity (the "functional currency"). The consolidated financial statements are presented in RMB, which is the presentation currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rate at the transaction date).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Foreign currency translation *(continued)*

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in translation reserve in equity.

2.4 Property, plant and equipment

Property, plant and equipment, other than construction in progress as described below and cost of right-of-use assets as described in note 2.11, are initially recognised at acquisition cost or manufacturing cost, including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management. They are subsequently stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful life, using the straight-line method, at the following rates per annum.

Buildings	Over the lease term
Plant and machineries	10 to 33.33%
Mould	33.33%
Furniture and equipment	20%
Leasehold improvement	10 to 20% or over its lease terms, whichever is shorter

Estimate of residual value and useful life are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

Construction in progress represents mould under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives of 5 years. Amortisation commences when the intangible assets are available for use.

Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses. The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets are tested for impairment as described below in note 2.8.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("**FVTPL**"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- FVTPL; or
- fair value through other comprehensive income ("**FVOCI**").

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within other income or finance cost, except for expected credit losses ("**ECL**") of trade receivables which is presented within administrative and other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Financial instruments *(continued)*

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents and trade and other receivables fall into this category of financial instruments.

Classification and measurement of financial liabilities

Trade and other payables

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

2.7 Impairment of financial assets

Recognition and derecognition

HKFRS 9's impairment requirements use forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost, trade receivables, loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("**Stage 1**") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("**Stage 2**").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Impairment of financial assets *(continued)*

Recognition and derecognition *(continued)*

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Impairment of financial assets *(continued)*

Recognition and derecognition *(continued)*

Other financial assets measured at amortised cost *(continued)*

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

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

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

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

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 26.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Impairment of non-financial assets

The following assets are subject to impairment testing:

- Intangible assets;
- Property, plant and equipment; and
- The Company's investments in subsidiaries

These assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash generating unit, except that the carrying amount of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. For raw material, cost is calculated using the weighted average method and in case of finished goods, comprise direct materials, direct labour and an appropriate portion of overheads.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Group determines whether the arrangement meets three key evaluations:

- whether the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- whether the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- whether the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

Assets leased to the Group

Leases are initially recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

Assets leased to the Group and the corresponding liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate of respective entities. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs; and
- restoration costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Leases *(continued)*

Assets leased to the Group (continued)

Payments associated with short-term leases are recognised on a straight-line basis as an expense in the consolidated statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

On the consolidated statement of financial position, right-of-use assets have been included in "property, plant and equipment", the same line as it presents the underlying assets of the same nature that it owns.

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

2.12 Provisions and contingent liabilities

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

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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 of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.13 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares (net of any related income tax benefit) are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Revenue recognition

Revenue arises mainly from the sales of disposable plastic food storage containers. To determine whether to recognise revenue, the Group follows a 5-step process:

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

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Sales of disposable plastic food storage containers

Revenue from the sales of disposable plastic food storage containers for a fixed fee is recognised when the Group transfers control of the assets to the customer in which the control is transferred at the point in time the customer takes undisputed delivery of the goods. The Group does not provide any sales-related warranties. Revenue from sale of disposable plastic food storage containers excludes value added tax or other sales taxes.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of ECL allowance) of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees in the PRC are required to participate in a central pension scheme operated by the local municipal government and are required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in the profit or loss as employees render services during the year. The Group's obligation under these plans is limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

No forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) may be used by the employer to reduce the existing level of contributions.

2.16 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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 differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the period in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable income in those years. The estimate of future taxable income includes:

- (a) income or loss excluding reversals of temporary differences; and
- (b) reversals of existing temporary differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Accounting for income taxes *(continued)*

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.18 Segment reporting

The Group identifies operating segments and prepares segment information based on regular internal financial information reported to the executive directors of the Company for their decisions about resources allocation to the Group's business components and their review of the performance of these components.

2.19 Related parties

For the purposes of these consolidated financial statements a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Related parties *(continued)*

- (b) the party is an entity and if any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (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) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

3. ADOPTION OF NEW AND AMENDED HKFRSs

Amended HKFRSs that are effective for annual periods beginning on or after 1 January 2021

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2021:

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

The adoption of the amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. ADOPTION OF NEW AND AMENDED HKFRSS *(continued)*

Issued but not yet effective HKFRSS

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSS have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 17	Insurance Contracts and related amendments ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ⁵
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKFRS 16	Property, Plant and Equipment – Proceeds before Intended Use ¹
Amendments to HKFRS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018 – 2020 ¹

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ Effective date to be determined.

⁴ Effective for business combination for which the acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

⁵ Effective for annual periods beginning on or after 1 April 2021.

The directors anticipate that all of the new and amended HKFRSS will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the new and amended HKFRSS. These new and amended HKFRSS are not expected to have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation of uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each 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 described below.

Impairment of property, plant and equipment and intangible assets

Items of property, plant and equipment (note 13) and intangible assets (note 14) are tested for impairment if there is any indication that the carrying amounts of these assets may not be recoverable and the assets are subject to an impairment loss. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount (i.e. higher of the assets fair value less cost of disposal and value in use) and the amount of the write-down is charged against the consolidated statement of profit or loss and other comprehensive income. The carrying amount of property, plant and equipment as at 31 December 2021 amounted to RMB44,797,000 (2020: RMB45,596,000). The carrying amount of intangible assets as at 31 December 2021 amounted to RMB2,500,000 (2020: RMB4,500,000).

Net realisable value of inventories

Net realisable value of inventories (note 16) is based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimation at the end of each reporting period. The carrying amount of inventories as at 31 December 2021 amounted to RMB7,266,000 (2020: RMB7,327,000).

Estimation of impairment of trade and other receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes estimates based on the aging of its trade receivable balances, customers' creditworthiness, and historical write-off experience adjusted for forward-looking factors specific to the economic environment. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance. Details of trade receivables are set out in note 17. For the year ended 31 December 2021, no impairment loss was recognised on trade receivables (2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Critical judgements

Discount rate of lease liabilities and right-of-use assets determination

In determining the discount rate, the Group has exercised considerable judgement in relation to determining the discount rate taking into account the nature of the underlying assets, the terms and conditions of the leases, at the commencement date and effective date of the modification.

Election of renewal of lease agreements

The Group has exercised considerable judgement in determining whether it will exercise the renewal options of lease agreements. The Group will exercise the renewal options considering that the lease for office and factory premises are critical for the Group's operations. Details of the renewals are set out in note 20 to the consolidated financial statements.

5. REVENUE

The Group's principal activities are disclosed in note 1 to the consolidated financial statements. Revenue of the Group is the revenue derived from these activities.

The Group's product is disposable plastic food storage containers. All the revenue are recognised at a point in time. The Group's contracts with customers usually have original expected duration of one year or less.

The chief operating decision-maker has been identified as the executive directors of the Company. The directors regard the Group's business of design and development, manufacturing and sales of disposable plastic food storage containers as a single operating segment and reviews the overall results of the Group as a whole to make decision about resources allocation and assess the performance of the component. Accordingly, no segment analysis information is presented.

Disaggregation of revenue from contracts with customers

The Group derives revenue from sales of products in the following brand and nature:

	2021 RMB'000	2020 RMB'000
Brand:		
Products under "JAZZIT" brand	236,945	207,785
Non-branded products	25,692	25,396
	262,637	233,181
Nature:		
Regular products	163,807	170,097
Customised products	96,843	61,271
Others	1,987	1,813
	262,637	233,181

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE *(continued)*

Disaggregation of revenue from contracts with customers *(continued)*

Regular products represent products with more simplistic design and features suitable for food and beverage storage with one compartment. Customised products are the ones with enhanced design features and higher degree of functionality, which generally allow customers to store various kinds of food and beverage with multi-compartment disposable plastic food storage containers.

Geographical information

Information about the Group's revenue by geographical locations presented based on the area or country in which the external customer is operated is presented as below:

	2021 RMB'000	2020 RMB'000
PRC (place of domicile)	260,959	229,085
Overseas	1,678	4,096
	262,637	233,181

The Group's non-current assets are all located in the PRC.

Information about major customers

There is no customer contributing over 10% of revenue to the Group during the year ended 31 December 2021 (2020: one customer contributing 12.1%).

6. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Interest income	266	143

7. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest expense for lease arrangements	195	212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2021 RMB'000	2020 RMB'000
Depreciation		
– Owned used	8,944	6,391
– Held under leases	993	786
Amortisation of intangible assets included in administrative and other operating expenses	2,000	2,000
Auditors' remuneration	730	623
Short-term lease charges in respect of		
– Premises	—	38
Cost of inventories recognised as an expense	160,411	143,940
Research and development cost (including staff costs)	5,918	5,615
Loss on disposals of property, plant and equipment	155	23
Listing expenses	—	9,997
Staff costs (including directors' emoluments)		
Salaries, allowances and other benefits	16,488	14,316
Contributions to defined contribution retirement plans (Note)	608	56
	17,096	14,372

Note: The Group was entitled to exempt from certain contributions to defined contribution retirement plans from the local government authority in the PRC for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INCOME TAX EXPENSE

No provision for profits tax has been provided by the Company as the Company had no assessable profits subject to taxation in any jurisdiction. No provision for Hong Kong profits tax has been provided as the Group had no assessable profits arising from Hong Kong during the year ended 31 December 2021 (2020: nil).

The provision for PRC enterprise income tax has been provided at the applicable tax rate of 25% (2020: 25%) on the assessable profits of the PRC subsidiaries.

	2021 RMB'000	2020 RMB'000
Current tax		
– Provision for PRC enterprise income tax	12,637	10,950
– Withholding tax	—	836
Income tax expense	12,637	11,786

The difference between the actual income tax charge in the consolidated statement of profit or loss and other comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	2021 RMB'000	2020 RMB'000
Profit before income tax	47,868	32,546
Tax on profit before income tax, calculated at the rate of 25% (2020: 25%)	11,967	8,137
Non-deductible expenses	670	2,813
Withholding tax	—	836
Income tax expense	12,637	11,786

As at 31 December 2021, no deferred income tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in the PRC. In the opinion of the directors of the Company, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investment in subsidiary in the PRC for which deferred income tax liabilities have not been recognised totalled approximately RMB94,017,000 as at 31 December 2021 (2020: RMB59,988,000). There are no other significant unrecognised deferred tax assets or liabilities as at 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

10.1 Directors' and Chief Executives' emoluments

	Year ended 31 December 2021				
	Fees RMB'000	Salaries, allowances and benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Xu	336	5	27	4	372
Mr. Zhang Yuangsheng (Mr. Zhang)	206	5	17	4	232
Ms. Xu Liping (Ms. Xu)	251	5	21	4	281
	793	15	65	12	885
Independent Non-executive directors:					
Mr. Li Danny Fui Lung (Mr. Li) (note b)	58	—	—	—	58
Mr. Liu Dajin (Mr. Liu)	50	—	—	—	50
Mr. Deng Zhihuang (Mr. Deng)	80	—	—	—	80
Mr. Chung Chi Kit (Mr. Chung) (note c)	13	—	—	—	13
	201	—	—	—	201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(continued)

10.1 Directors' and Chief Executives' emoluments (continued)

	Year ended 31 December 2020				
	Fees RMB'000	Salaries, allowances and benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Xu	157	159	24	—*	340
Mr. Zhang	108	105	16	—*	229
Ms. Xu	123	121	19	—*	263
	388	385	59	—	832
Independent Non-executive directors (note a):					
Mr. Li	50	—	—	—	50
Mr. Liu	25	—	—	—	25
Mr. Deng	40	—	—	—	40
	115	—	—	—	115

* Amount less than RMB 1,000.

Note:

- (a) Mr. Li, Mr. Liu and Mr. Deng were appointed as independent non-executive directors of the Company on 19 June 2020.
- (b) Mr. Li resigned as an independent non-executive director of the Company on 10 August 2021.
- (c) Mr. Chung was appointed as an independent non-executive director of the Company on 10 August 2021.

The emoluments shown above include emolument received from the Group by the directors in their capacity as director/employee of the Group's subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(continued)

10.2 Five highest paid individuals

The five highest paid individuals of the Group during the year ended 31 December 2021 include 2 directors (2020: 1 director) whose emoluments are disclosed in note 10.1. The aggregate emoluments in respect of the remaining 3 individuals (2020: 4 individuals) are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	948	1,460
Retirement scheme contributions	17	17
	965	1,477

The above individuals' emoluments are within the following bands:

	2021 Number of individuals	2020 Number of individuals
HK\$ nil to HK\$1,000,000	3	4

No directors or the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2021 (2020: nil). No directors or the five highest paid individuals have waived or agreed to waive any emoluments during the year ended 31 December 2021 (2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. DIVIDENDS

Prior to the listing of shares on GEM of the Stock Exchange, the Group declared dividends to its then equity owners, as follows:

	2021 RMB'000	2020 RMB'000
Dividend	—	7,522

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the following:

	2021	2020
Earnings		
Profit for the year attributable to equity holders of the Company (RMB'000)	35,231	20,760
Weighted average number of ordinary shares (in thousand)	600,000	520,274

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2020 includes (i) the number of ordinary shares of the Company immediately after the Capitalisation Issue (note 21(i)), as if all these shares had been in issue throughout the year ended 31 December 2020, and (ii) the weighted average of 150,000,000 new ordinary shares issued pursuant to the Share Offer (note 21(ii)).

The diluted earnings per share equal to basic earnings per share as there was no potential ordinary share in issue for the years ended 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

	Building held under leases RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Mould RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
As at 1 January 2020	5,175	25,660	331	14,398	2,295	537	48,396
Additions	988	17,072	—	2,098	771	3,857	24,786
Transfer	—	—	—	3,484	—	(3,484)	—
Disposals	—	(50)	—	(1,364)	—	—	(1,414)
As at 31 December 2020	6,163	42,682	331	18,616	3,066	910	71,768
As at 1 January 2021	6,163	42,682	331	18,616	3,066	910	71,768
Additions	16	4,945	—	—	—	4,486	9,447
Transfer	—	—	—	5,080	—	(5,080)	—
Disposals	—	(293)	—	(3,009)	—	—	(3,302)
As at 31 December 2021	6,179	47,334	331	20,687	3,066	316	77,913
Accumulated depreciation							
As at 1 January 2020	663	7,857	295	10,145	1,359	—	20,319
Charge for the year	786	3,427	10	2,709	245	—	7,177
Written back on disposal	—	(28)	—	(1,296)	—	—	(1,324)
As at 31 December 2020	1,449	11,256	305	11,558	1,604	—	26,172
As at 1 January 2021	1,449	11,256	305	11,558	1,604	—	26,172
Charge for the year	993	4,924	3	3,688	329	—	9,937
Written back on disposal	—	(135)	—	(2,858)	—	—	(2,993)
As at 31 December 2021	2,442	16,045	308	12,388	1,933	—	33,116
Net book amount							
As at 31 December 2021	3,737	31,289	23	8,299	1,133	316	44,797
As at 31 December 2020	4,714	31,426	26	7,058	1,462	910	45,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. INTANGIBLE ASSETS

	Trademark RMB'000
Cost	
As at 1 January 2020, 31 December 2020 and 2021	9,500
Accumulated amortisation	
As at 1 January 2020	3,000
Provided for the year	2,000
As at 31 December 2020	5,000
Provided for the year	2,000
As at 31 December 2021	7,000
Net book amount	
As at 31 December 2021	2,500
As at 31 December 2020	4,500

15. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2021 and 2020 are as follows:

Company name	Place of incorporation / establishment	Registered/ Issued and fully paid up capital	Equity interest attributable to the Group		Principal activities
			2021	2020	
Fujian Hengsheng Animation Culture Diffusion Co., Ltd.	The PRC	RMB47,000,000	100%	100%	Design and development, manufacturing and sales of disposable plastic food storage containers
Yihe Investment Holdings Limited	BVI	1 share of US\$1	100%*	100%*	Investment holding
Silver Excel Investments Limited	Hong Kong	1 share	100%	100%	Investment holding

* Issued capital held directly by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	3,987	4,228
Finished goods	3,279	3,099
	7,266	7,327

17. TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables		
– from third parties	38,068	33,105
Prepayments	484	765
	38,552	33,870

The directors consider that the fair values of all of the trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts due to these balances having short maturity periods on their inception.

Trade receivables

Before accepting any new customer, the Group applies an internal credit assessment policy to assess the potential customer's credit quality. The credit period is generally for a period of 40 days. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables, based on the invoice date and net of ECL allowance, is as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	26,821	16,719
31-60 days	11,247	16,386
	38,068	33,105

Trade receivables are mainly denominated in RMB. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. As at 31 December 2021, trade receivables of RMB971,000 were past due (2020: RMB3,235,000) and were subsequently settled. During the year ended 31 December 2021, no written off was made against the trade receivables (2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES *(continued)*

Trade receivables *(continued)*

Generally, the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base. As at 31 December 2021, there has not been any significant change in the gross amounts of trade receivables that has affected the estimation of the loss allowance during the year (2020: nil).

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 26.2.

18. CASH AND CASH EQUIVALENTS

	2021 RMB'000	2020 RMB'000
Bank balances and cash	107,638	72,396

Included in the Group's cash and cash equivalents of approximately RMB107,607,000 (2020: RMB72,304,000) as at 31 December 2021 are bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. The conversion of RMB denominated deposits placed in banks in the PRC into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government. Cash at banks earns interest at floating rates based on daily bank deposit rates.

19. TRADE AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables		
– To third parties	24,609	24,242
Accrued charges and other payables		
– Other tax payable	1,288	366
– Salaries payables	1,617	1,489
– Other payables and accruals	835	591
	3,740	2,446
	28,349	26,688

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. TRADE AND OTHER PAYABLES *(continued)*

Trade Payables

The Group is granted by its suppliers credit periods ranging from 30 to 60 days. An aged analysis of the trade payables, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	12,389	14,860
31 days to 60 days	12,220	9,382
	24,609	24,242

All trade payables are denominated in RMB. All amounts are short term and hence the carrying values of trade and other payables are considered to be a reasonable approximation of their fair values.

20. LEASE LIABILITIES

Lease liabilities are presented in the consolidated statement of financial position as follows:

	2021 RMB'000	2020 RMB'000
Current:		
Third parties	479	457
Jinjiang Hengsheng Toys Co., Ltd (" Hengsheng Toys ") (Note 1)	517	487
Non- current:		
Third parties	641	1,120
Hengsheng Toys	1,789	2,295
	3,426	4,359

The Group has leases for an office and factory premises. These leases are reflected on the consolidated statement of financial position as property, plant and equipment (note 13) and lease liabilities.

Each lease generally imposes a restriction that the right-of-use asset can only be used by the Group. Leases can only be cancelled with mutual agreement between the Group and lessor. There is no variable lease payment and termination option among the lease contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. LEASE LIABILITIES *(continued)*

The following table shows the future minimum lease payments:

	2021 RMB'000	2020 RMB'000
Within one year	1,145	1,139
One to two years	798	1,139
Two to five years	1,928	2,359
After five years	—	361
	3,871	4,998
Finance charges	(445)	(639)
	3,426	4,359

	2021 RMB'000	2020 RMB'000
Present value of minimum lease payments:		
Due within one year	996	944
Due in first to second years	694	991
Due in second to fifth years	1,736	2,077
Due after the fifth years	—	347
	3,426	4,359
Less: Portion due within one year included under current liabilities	(996)	(944)
Portion due after one year included under non-current liabilities	2,430	3,415

On 21 June 2020, lease period of certain lease agreements with Hengsheng Toys were revised from ten years to three years effective from 21 June 2020. The Group can elect to renew for another three years with same rentals upon the expiration of the three-year lease term. Thereafter the lease period and rentals are subject to negotiations but Hengsheng Toys agrees to lease to the Group for a maximum of 20 years from 21 June 2020. The effect of modification of the lease terms to the consolidated financial statements is not significant on the basis that the Group will renew the leases up to the original lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. LEASE LIABILITIES *(continued)*

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised as property, plant and equipment on consolidated statement of financial position:

2021

Right-of-use asset	No. of lease	Range of remaining lease term (Note 2) Year	Average remaining lease term (Note 2) Year
Buildings	13	2-7	4-5

2020

Right-of-use asset	No. of lease	Range of remaining lease term (Note 2) Year	Average remaining lease term (Note 2) Year
Buildings	12	3-8	5-6

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less). For the year ended 31 December 2021, expenses incurred for short term lease not included in the measurement of lease liability is nil (2020: RMB38,000).

During the year ended 31 December 2021, the total cash outflows for the leases are RMB1,161,000 (2020: RMB971,000).

Note 1: Hengsheng Toys is controlled by Mr. Hui Man Kit. Mr. Hui Man Kit is the brother of Mr. Xu, the controlling shareholder and executive director of the Company.

Note 2: On the basis that the Group elects to renew the lease agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE CAPITAL

	2021		2020	
	No. of shares	RMB'000	No. of shares	RMB'000
Authorised:				
Ordinary share of HK\$0.01				
As at 1 January	5,000,000,000	45,147	38,000,000	343
Increased in authorised share capital (note(i))	—	—	4,962,000,000	44,804
As at 31 December	5,000,000,000	45,147	5,000,000,000	45,147
Issued and fully paid:				
As at 1 January	600,000,000	5,418	10,000	1
Issue of ordinary shares pursuant to the Capitalisation Issue (note (i))	—	—	449,990,000	4,063
Issue of ordinary shares pursuant to the Share Offer (note (ii))	—	—	150,000,000	1,354
As at 31 December	600,000,000	5,418	600,000,000	5,418

Note:

- (i) Pursuant to the written resolutions of the shareholders passed on 19 June 2020, the authorised share capital of the Company increased to HK\$50,000,000 (equivalent to RMB45,147,000) divided into 5,000,000,000 ordinary shares of HK\$0.01 each by the creation of an additional 4,962,000,000 shares. 449,990,000 ordinary shares of HK\$0.01 each were allotted and issued (equivalent to RMB4,063,000), credited as fully paid at par, by way of capitalisation from the share premium of the Company ("**Capitalisation Issue**").
- (ii) On 13 July 2020, 150,000,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$0.4 per share in respect of the Company's initial public offering ("**Share Offer**"). The proceeds of HK\$1,500,000 (equivalent to RMB1,354,000) representing the par value of these ordinary shares, were credited to the Company's share capital account. The remaining proceeds less the listing cost directly attributable to the issue of shares amounted to HK\$39,638,000 (equivalent to RMB36,149,000) were credited to the Company's share premium account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2021 and 2020 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Statutory reserve

In accordance with the Company Law of the PRC, each of the subsidiaries of the Company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the generally accepted accounting principles of the People's Republic of China ("PRC GAAP"), to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

Translation reserve

Translation reserve comprises all foreign exchange differences for the translation of financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in note 2.3.

Distributable reserves

As at 31 December 2021, the reserves available for distribution to the shareholders of the Company amounted to RMB33,040,000 (2020: RMB35,618,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2021 RMB'000	2020 RMB'000
ASSETS AND LIABILITIES			
Non-current asset			
Investments in subsidiaries	15	—*	—*
Current assets			
Amount due from subsidiaries (Note(i))		43,152	44,456
Cash and cash equivalents		—*	21
		43,152	44,477
Current liabilities			
Other payables		804	686
Amount due to subsidiaries (Note(i))		8,029	5,726
		8,833	6,412
Net current assets		34,319	38,065
Net assets		34,319	38,065
CAPITAL AND RESERVES			
Share capital	21	5,418	5,418
Reserves (Note(ii))		28,901	32,647
Total equity		34,319	38,065

* Amount less than RMB1,000.

Note (i): The amounts due are unsecured, interest-free and repayable on demand.

Xu Youjiang
Director

Zhang Yuansheng
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note (ii): The movement of the Company's reserves are as follows:

	Share premium RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2020	20,000	315	(5,136)	15,179
Loss and total comprehensive expenses for the year	—	—	(3,810)	(3,810)
Exchange difference on translation to presentation currency	—	(3,286)	—	(3,286)
Dividend declared (note 11)	—	—	(7,522)	(7,522)
Issuance of ordinary shares pursuant to Capitalisation Issue	(4,063)	—	—	(4,063)
Issuance of ordinary shares pursuant to Share Offer	36,149	—	—	36,149
Balance at 31 December 2020 and 1 January 2021	52,086	(2,971)	(16,468)	32,647
Loss and total comprehensive expenses for the year	—	—	(2,578)	(2,578)
Exchange difference on translation to presentation currency	—	(1,168)	—	(1,168)
Balance at 31 December 2021	52,086	(4,139)	(19,046)	28,901

24. RELATED PARTY TRANSACTIONS

Same as disclosed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties:

Compensation of key management personnel

	2021 RMB'000	2020 RMB'000
(a) Key management personnel remuneration		
Salaries, allowances and benefits	1,184	1,403
Retirement scheme contributions	21	17
	1,205	1,420
(b) Transactions with related party		
Hengsheng Toys		
Rental expenses	—	38
Addition to right-of-use asset	16	218
Interest expense for lease arrangements	127	144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES AND NON-CASH TRANSACTION

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Non-cash transaction Amount due from a shareholder RMB'000	Financing activities Lease liabilities RMB'000
At 1 January 2020	6,108	4,298
Cash transaction:		
– Capital element of lease rentals paid	—	(721)
– Interest element of lease rentals paid	—	(212)
Non-cash transaction:		
– Effective interest charges (note 7)	—	212
– Net off with prepaid lease payments	—	(206)
– Addition	—	988
– Dividend declared (note (i))	(7,522)	—
– With holding tax accrued for dividend	1,504	—
At 31 December 2020 and 1 January 2021	—	4,359
Cash transaction:		
– Capital element of lease rentals paid	—	(966)
– Interest element of lease rentals paid	—	(195)
Non-cash transaction:		
– Effective interest charges (note 7)	—	195
– Net off with prepaid lease payments	—	17
– Addition	—	16
At 31 December 2021	—	3,426

Note (i): On 2 July 2020, the Company declared a dividend in favour of one of the ordinary shareholders of the Company, Prize Investment, in an aggregate amount of RMB7,522,000 to offset the amount due from the ultimate holding company to amount due from a shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk), credit risk and liquidity risk. The Group's exposure to foreign currency risks arise from its overseas sales which are primarily denominated in United States Dollars and accruals which are primarily denominated in Hong Kong Dollars, which are not the functional currency of the respective entities of the Group to which these transactions related. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rate where necessary to address short-term imbalances. The directors consider the exposure to foreign currency risk is immaterial.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

26.1 Categories of financial assets and liabilities

	2021 RMB'000	2020 RMB'000
Financial assets		
Measured at amortised costs:		
Trade and other receivables	38,068	33,105
Cash and cash equivalents	107,638	72,396
	145,706	105,501
Financial liabilities		
Measured at amortised cost:		
Trade and other payables	27,061	26,320
Lease liabilities	3,426	4,359
	30,487	30,679

26.2 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Group is exposed to credit risk in relation to its bank deposits and trade and other receivables. The Group's maximum exposure to credit risk in relation to financial assets is limited to the carrying amount at the reporting dates as summarised in note 26.1.

To manage this risk, bank deposits are mainly placed with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions. The management does not expect that there will be any significant losses from non-performance by these counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(continued)*

26.2 Credit risk *(continued)*

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment by the management. Where available at reasonable cost, external credit ratings and/or reports on customers are obtained and used. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers. In addition, as set out in note 2.7, the Group assesses ECL under HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the historical credit loss experience. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

The Group is exposed to concentration of credit risk as at 31 December 2021 on trade receivables from the Group's five largest debtors which accounted for 40% of the Group's total trade receivables (2020: 46%). The management reviews the recoverable amount of each individual receivable regularly to ensure that follow up actions is taken to recover overdue debts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The Group has established a policy to perform an assessment of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group classifies its other receivables into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1 When other receivables are first recognised, the Group recognises an allowance based on 12-month ECL.
- Stage 2 When other receivables have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.
- Stage 3 When other receivables are considered credit-impaired, the Group records an allowance for the lifetime ECLs.

The Group assessed that the ECL for these receivables are not material under the 12-month ECL method. Thus no ECL was recognised during the year ended 31 December 2021 (2020: nil). The ECL are summarised as below.

	As at 31 December	
	2021	2020
Trade receivables		
– Current	0.1%	0.1%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(continued)*

26.3 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and lease liabilities, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The analysis set out the remaining contractual maturity based on undiscounted cash flow of the Group's financial liabilities.

	Within one year or on demand RMB'000	One to two years RMB'000	Two to five years RMB'000	After five years RMB'000	Total undiscounted amount RMB'000	Carrying amount RMB'000
As at 31 December 2021						
Trade and other payables	27,061	—	—	—	27,061	27,061
Lease liabilities	1,145	798	1,928	—	3,871	3,426
Total	28,206	798	1,928	—	30,932	30,487

	Within one year or on demand RMB'000	One to two years RMB'000	Two to five years RMB'000	After five years RMB'000	Total undiscounted amount RMB'000	Carrying amount RMB'000
As at 31 December 2020						
Trade and other payables	26,320	—	—	—	26,320	26,320
Lease liabilities	1,139	1,139	2,359	361	4,998	4,359
Total	27,459	1,139	2,359	361	31,318	30,679

26.4 FAIR VALUE

The management considered the carrying amounts of financial assets and financial liabilities of the Group are not materially different from their fair values as at 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as the sum of trade and other payables and lease liabilities less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares and raise new debt financing. The debt to equity ratio as at 31 December 2021 and 2020 were:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Trade and other payables	28,349	26,688
Lease liabilities	3,426	4,359
Less: Cash and cash equivalents	(107,638)	(72,396)
Net debt	(75,863)	(41,349)
Total equity	165,439	130,078
Debt to equity ratio	N/A	N/A

28. EVENTS AFTER THE REPORTING PERIOD

The Company entered into equity sale and purchase agreements and supplemental agreements on 19 September 2021 and 20 January 2022 respectively with Mr. Xu, Yeewo Pictures & Media Limited ("**Yeewo Pictures**") and Mr. Gong Zongfan to acquire the entire equity interests in June Pictures & Media Limited ("**Target Company**") at a total consideration of RMB20,571,000 satisfied by the Company's issue of 74,482,760 ordinary shares to Mr. Xu and debt instruments of RMB3,085,714 to each of Yeewo Pictures and Mr. Gong.

The Target Company holds 10% interest of a film project ("**Film Project**"). Yeewo Pictures provide a profit guarantee in the sum of RMB25,572,000 for the 10% interest in the Film Project and Mr. Xu further agrees to pay a penalty interest of 5% per annum to the Company based on the consideration if the Film Project is not released within 2022 till the release date of the Film Project.

The proposed acquisition of Target Company is subject to the fulfilment or waiver of certain conditions including approval from independent shareholders in an extraordinary general meeting to be held on 1 April 2022. Details of the proposed acquisition of Target Company have been set out in the Company's circular dated 16 March 2022.