



# 温岭浙江工量刃具交易中心股份有限公司 Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited\*

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock code : 1379



\* for identification purposes only

# CONTENTS

Corporate Information	2
Five-Year Financial Summary	4
Chairman's Statement	5
Biographical Details of Directors, Supervisors and Senior Management	7
Management Discussion and Analysis	12
Directors' Report	22
Supervisors' Report	38
Corporate Governance Report	39
Environmental, Social and Governance Report	52
Independent Auditor's Report	65
Consolidated Statement of Profit or Loss and Other Comprehensive Income	71
Consolidated Statement of Financial Position	72
Consolidated Statement of Changes in Equity	74
Consolidated Cash Flow Statement	75
Notes to the Consolidated Financial Statements	76

# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. PAN Haihong (*Chief executive officer*)  
Mr. ZHOU Guilin

### Non-executive Directors

Mr. HUANG Qun (*Chairman of the Board*)  
Mr. WANG Wenming  
Mr. CHENG Jinyun  
Mr. YE Yunzhi

### Independent Non-executive Directors

Mr. XU Wei  
Mr. JIN Hongqing  
Mr. TSOI Ka Shing

## AUDIT COMMITTEE

Mr. TSOI Ka Shing (*Chairman*)  
Mr. HUANG Qun  
Mr. XU Wei

## REMUNERATION COMMITTEE

Mr. JIN Hongqing (*Chairman*)  
Mr. PAN Haihong  
Mr. TSOI Ka Shing

## NOMINATION COMMITTEE

Mr. HUANG Qun (*Chairman*)  
Mr. XU Wei  
Mr. JIN Hongqing

## JOINT COMPANY SECRETARIES

Mr. XU Yi  
Ms. CHAN Tsz Yu *ACG, HKACG*

## AUTHORISED REPRESENTATIVES

Mr. PAN Haihong  
Mr. XU Yi

## LEGAL REPRESENTATIVE

Mr. PAN Haihong

## SUPERVISORY COMMITTEE

Ms. XIE Yanli  
Ms. YANG Mengjie  
Mr. XIE Huihui

## LEGAL ADVISERS

*As to the PRC Laws*  
L&H Law Firm

*As to the Hong Kong Laws*  
Chungs Lawyers  
in association with DeHeng Law Offices

## AUDITOR

KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance  
8th Floor, Prince's Building  
10 Chater Road  
Central  
Hong Kong

## COMPLIANCE ADVISER

Cinda International Capital Limited

## PRINCIPAL BANKERS

China Construction Bank Corporation  
Wenling Wenqiao Sub-branch  
Industrial Bank Co., Ltd.  
Taizhou Wenling Sub-branch

## CORPORATE INFORMATION

### REGISTERED OFFICE AND HEADQUARTERS IN THE PRC

Qianyangxia Village  
Wenqiao Town  
Wenling City  
Zhejiang Province  
PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Dah Sing Financial Centre  
No. 248 Queen's Road East  
Wanchai  
Hong Kong

### H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### STOCK CODE

1379

### WEBSITE

<http://cnglj.com>

# FIVE-YEAR FINANCIAL SUMMARY

	2021	Year ended 31 December			
		2020	2019 (Note 1)	2018 (Note 1)	2017 (Note 1)
<b>Major Items of Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>					
Revenue (RMB'000)	57,205	46,743	50,150	46,994	43,487
Gross profit (RMB'000)	47,267	37,625	40,887	38,809	36,760
Gross profit margin	82.6%	80.5%	81.5%	82.6%	84.5%
Profit for the year (RMB'000)	47,317	28,081	32,447	36,961	44,892
Net profit margin	82.7%	60.1%	64.7%	78.7%	103.2%
Basic and diluted earnings per share (RMB)	0.59	0.47	0.54	0.62	0.75

	2021	As at 31 December			
		2020	2019 (Note 1)	2018 (Note 1)	2017 (Note 1)
<b>Major Items of Consolidated Statement of Financial Position</b>					
Non-current assets (RMB'000)	1,025,227	1,039,150	956,685	866,690	836,924
Current assets (RMB'000)	213,884	95,357	59,264	44,659	48,536
Current liabilities (RMB'000)	225,056	130,026	126,704	54,222	66,179
Net current liabilities (RMB'000)	11,172	34,669	67,440	9,563	17,643
Non-current liabilities (RMB'000)	252,035	289,778	251,681	252,010	251,125
Net assets (RMB'000)	762,020	714,703	637,564	605,117	568,156
Gearing ratio (Note 2)	2.0%	11.3%	8.9%	N/A	N/A

Notes:

- (1) The results and summary of assets and liabilities for the years ended 31 December 2017, 2018 and 2019 were extracted from the prospectus of the Company dated 11 December 2020 (the "Prospectus").
- (2) Gearing ratio equals to total debt divided by total equity as at the end of the year. Total debt includes all interest-bearing bank loans.

# CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of 溫嶺浙江工量刃具交易中心股份有限公司 Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited\* (the “**Company**”, together with its subsidiaries, collectively the “**Group**”), I would like to present to the shareholders of the Company (the “**Shareholders**”) the annual results and consolidated financial statements of the Group for the year ended 31 December 2021.

Looking back to 2021, China's manufacturing industry was in line with China's gross domestic product (“**GDP**”) growth rate. The entire manufacturing industry turned lower after a positive open. In the first half of the year, the business was flourishing and busy. While the second half of the year saw a plummet in orders and growing concern in the market. The Group mainly operates the measuring and cutting tools manufacturing and trading centre market and most of the tenants of the Group sell measuring and cutting tools. The downstream of the measuring and cutting tools industry mainly includes various manufacturing industries such as textile industry, paper industry, pharmaceutical industry and automotive industry. Therefore, the development of various downstream manufacturing industries will directly affect the leasing business of the measuring and cutting tool manufacturing and trading centre market.

The Group is in a leading position in the measuring and cutting tools manufacturing and trading centre market and generally enters into lease contracts with tenants of 3 to 5 years or even up to 20 years. Therefore, short-term economic fluctuations have no significant impact on the Group's operations. In 2021, the Group leveraged the advantages of “market + industry” and grasped the “dual engines” of smart manufacturing and digital economy to promote the iterative upgrade of professional markets and accelerate the transformation and rise of the measuring and cutting tools industry with the driving force of main body upgrade, cluster cultivation and innovation leadership. As at 31 December 2021, the occupancy rate of the measuring and cutting tools trading centre in Wenling City, Zhejiang Province (the “**Trading Centre**”) was approximately 98.18%, as compared to approximately 99.4% of the corresponding period of last year, without much change. For the year ended 31 December 2021, the Group's revenue from property leasing amounted to RMB54.8 million, representing an increase of approximately 25.0% as compared with the corresponding period of last year.

## OUTLOOK

Measuring and cutting tools refer to those tools or products which are used in the machine manufacturing process for measuring and cutting or as auxiliaries for measuring and cutting. They mainly include measuring tools, cutting tools and other tools, are one of the key technologies for intelligent high-end manufacturing. In the past, most of the businesses of tenants were lack of innovative resources and were reluctant to invest excessive resources to attract talents and equipment. This has inspired the idea of extending the Group's business from sales-end services to production-end services. Through the construction of the measuring and cutting tools science and technology innovation park, the entire industrial chain of the measuring and cutting tools will be opened up and the development of industrial clusters and the entire industrial chain of the measuring and cutting tools will be promoted. The measuring and cutting tools science and technology innovation park will be an innovative service complex, a cutting tool quality inspection focusing on material inspection centre, cutting tool testing centre and cutting test centre, which will be a one-stop service platform for the provincial industrial quality foundation, which will promote the transformation and upgrading of traditional industries with technical strength and provide value-added services to tenants. At the same time, the measuring and cutting tools science and technology innovation park will also attract talents to establish a long-term cooperation platform with academic institutions, covering measuring and cutting tools technical services, equipment sharing, talent services, and collaborative education of industry and education. The goal is to contribute to the measuring and cutting tools industry while broadening the Group's revenue base.

## CHAIRMAN'S STATEMENT

As at 31 December 2021, the construction of the phase I of the measuring and cutting tools science and technology innovation park has been completed and the pre-sale and pre-lease have commenced, which is expected to be officially occupied in 2022. Based on the successful construction of the phase I of the measuring and cutting tools science and technology innovation park, the Group seizes the chance to continue planning and constructing the phase II of the science and technology innovation park project, so as to realise the new situation where the measuring and cutting tools building and the two phases of science and technology innovation park project will go hand in hand, and to build a comprehensive industrial cluster area integrating research and development, production and service, to achieve positive interaction and form a regional cluster economy of "industry + market". The Group believes that the measuring and cutting tools science and technology innovation park project will become the engine for future business growth.

### APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to our tenants, other business partners and Shareholders for their continuous support. I would like to also thank the management team and all staff members for their contribution during the year.

**HUANG Qun**

*Chairman*

Wenling City, the PRC  
30 March 2022

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. PAN Haihong (潘海鴻)**, aged 45, is our executive Director, the chief executive officer and general manager of our Company. He was appointed as a Director in August 2015 before being re-designated as an executive Director on 21 November 2018. He is also the director, manager and legal representative of Wenling Xuri Investment Company Limited\* (the “**Wenling Xuri**”). He is primarily responsible for overseeing strategic development, business planning and the day-to-day operations of our Group. He is also a member of the remuneration committee of our Company.

Mr. Pan has over 22 years of management related experience and has deep understanding of business development, corporate governance and administration. Prior to joining our Group, Mr. Pan served as a legal representative and venue supervisor in Wenling City Daxi Centre Caichang Company Limited\* (溫嶺市大溪中心菜場有限公司) from June 1997 to August 2015, where he was responsible for overall management, daily operation and supervision of the company. Mr. Pan worked as an assistant officer in Wenling City Market Development Service Centre\* (溫嶺市市場開發服務中心) (the “**Market Development Service Centre**”) from August 2015 to February 2018, where he was responsible for assisting the director in the supervision, operational management and personnel and general management of the centre. Mr. Pan has been a member of party committee in Wenling City Market Group Company Limited\* (溫嶺市市場集團有限公司) (the “**Market Group**”) since February 2018, where he is responsible for making significant decisions and providing judgment to the committee. Mr. Pan completed a course in economic law organised by Hubei Province Economic Management Cadre Institute\* (湖北省經濟管理幹部學院) in the PRC in June 2004.

**Mr. ZHOU Guilin (周桂林)**, aged 63, is our executive Director, our chief operating officer, and the supervisor of Wenling Xuri. He is primarily responsible for overseeing financial management and day-to-day operations of our Group.

Mr. Zhou has over nine years of experience in trading centre operation industry and is highly knowledgeable in the areas of business operation and financial management. Mr. Zhou joined our Group as our deputy general manager in October 2009 and a Director in May 2018, and was re-designated as an executive Director on 21 November 2018, where he was responsible for overseeing the internal control and daily operation of our Group and monitoring the financial activities of our Group. Prior to joining our Group, Mr. Zhou was employed as a leader in urban construction management department of the government of Wenqiao Town in Wenling City from August 1993 to September 2009, where he was responsible for supervising the operation and managing the projects.

### Non-Executive Directors

**Mr. HUANG Qun (黃群)**, aged 59, is the chairman of our Board and a non-executive Director. He was appointed as a Director in May 2018 before being re-designated as a non-executive Director on 21 November 2018. He is primarily responsible for overseeing the growth strategy and overall management of our Group. He is also the chairman of the nomination committee and a member of the audit committee of our Company.

Mr. Huang has about 18 years of management related experience and has extensive knowledge in the areas of strategic planning, business development and administration. Prior to joining our Group, Mr. Huang was appointed as an officer in Market Development Service Centre from November 2001 to February 2018, where he was responsible for the overall management, business development and strategic planning of the centre. Mr. Huang has served as deputy general manager in Market Group since February 2018, where he is responsible for assisting the general manager in the overall development and operational planning of the company. Mr. Huang graduated in Administrative Management from Yangtze University (長江大學) in the PRC in June 2005.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. WANG Wenming (王文明)**, aged 54, has been appointed as a Director since 3 May 2018. Mr. Wang was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Wang has over 13 years of experience in management and administration. Prior to joining our Group, Mr. Wang has worked for Wenling City Wenqiao Town Maoyang Village Villagers Committee\* (溫嶺市溫嶠鎮茅洋村村民委員會) (the “**Maoyang Village Committee**”) since November 2006, first as a deputy officer and subsequently as a secretariat, where he is responsible for the overall management and administration of and providing strategic advice to Maoyang Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC\* (中國浙江省溫嶺市溫嶠鎮茅洋村). Mr. Wang served as a deputy of the Standing Committee of the Fifth National People’s Congress of Taizhou City in 2017 and has been a member of the 14th Committee in Wenling City of the Chinese People’s Political Consultative Conference since February 2017. Mr. Wang graduated from Wenling City College of Vocation and Technology\* (溫嶺市職業技術學院) in the PRC in January 2011.

**Mr. CHENG Jinyun (程錦雲)**, aged 64, has been appointed as a Director since 3 May 2018. Mr. Cheng was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Cheng has approximately 16 years of experience in management and administration. Prior to joining our Group, Mr. Cheng has worked for Wenling City Wenqiao Town Shangjie Village Villagers Committee\* (溫嶺市溫嶠鎮上街村村民委員會) (the “**Shangjie Village Committee**”) since January 2003 first as a member and subsequently the village head, and currently the secretariat, where he was responsible for the overall management and administration of the village and making significant decisions on the development of the village.

**Mr. YE Yunzhi (葉雲志)**, aged 56, has been appointed as a Director since 3 May 2018. Mr. Ye was re-designated as a non-executive Director on 21 November 2018 and is primarily responsible for providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Group.

Mr. Ye has over 14 years of experience in management and administration. Prior to joining our Group, Mr. Ye has worked for Wenling City Wenqiao Town Zhongjie Village Villagers Committee\* (溫嶺市溫嶠鎮中街村村民委員會) (the “**Zhongjie Village Committee**”) since April 2005, first as a party branch member of Zhongjie Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC\* (中國浙江省溫嶺市溫嶠鎮中街村) and a committee member and subsequently as an officer, where he is responsible for overall management and administration of the village and providing strategic advice to the village. Mr. Ye received the award of Excellent Communist Party Member in Wenling City\* (溫嶺市創先爭優優秀共產黨員) from the Wenling City Committee in June 2012. Mr. Ye completed a course in agricultural economic management organised by Taizhou Administration Institute\* (台州行政學院) in the PRC in July 2008.

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Independent Non-Executive Directors

**Mr. XU Wei (許偉)**, aged 51, has been appointed as our independent non-executive Director since 9 November 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also a member of each of the audit and nomination committees of our Company.

Mr. Xu is a registered lawyer in the PRC and has over 26 years of experience in the legal industry. Mr. Xu was employed by Wenling City Songmen Legal Service Office\* (溫嶺市松門法律服務所) as a legal officer from April 1993 to April 1999 and by Wenling City Ruoheng Legal Service Office\* (溫嶺市箬橫法律服務所) as a chief officer from May 1999 to December 2012, where he was both primarily responsible for providing legal services. Subsequently, Mr. Xu worked for Zhejiang Mingquan Law Firm\* (浙江明權律師事務所) as a trainee solicitor from January 2013 to March 2014, where he was primarily responsible for assisting the firm's lawyers in legal related matters. Mr. Xu then worked for Zhejiang Qianheng Law Firm\* (浙江乾衡律師事務所) as a lawyer from April 2014 to April 2015, where he was primarily responsible for providing legal services. Mr. Xu has worked for Zhejiang Qianheng (Wenling) Law Firm\* (浙江乾衡(溫嶺)律師事務所) as a lawyer since May 2015, where he is primarily responsible for assisting in the management of the firm and providing legal services. Mr. Xu passed the National Judicial Examination\* (國家司法考試) in the PRC and obtained his legal professional qualification in March 2012. Mr. Xu completed a course in legal studies through distance learning organised by the China University of Geosciences (中國地質大學) in the PRC in June 2004.

**Mr. JIN Hongqing (金洪青)**, aged 68, has been appointed as our independent non-executive Director since 1 August 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also the chairman of the remuneration committee and a member of the nomination committee of our Company.

Mr. Jin has over 32 years of experience in corporate governance, administration and management. Mr. Jin worked for Wenqiao Town People's Government, first as a deputy mayor of industry from June 1987 to September 1990 and from March 1993 to June 1995 and subsequently as a deputy officer from June 1995 to October 2012, where he was responsible for corporate governance, land management and administration of Wenqiao Town. Mr. Jin worked as a secretariat in Magong Xiang Party Committee\* (馬公鄉黨委) from September 1990 to February 1993. Mr. Jin has been a secretary-general in Chamber of Commerce of Wenling Shoes and Leather Industry\* (溫嶺市鞋革業商會) since November 2012, where he was responsible for assisting the president and vice president in daily operations and administration of the Chamber of Commerce. Mr. Jin received the award Advanced Worker\* (先進工作者) in 1984, 1985, 1986 and 1989 and the award Advanced Individual\* (先進個人) in 2007 and 2010 from the authorities, respectively, in recognition of his contribution to the advancement of Wenling City.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. TSOI Ka Shing (蔡嘉誠)**, aged 40, has been appointed as our independent non-executive Director since 1 August 2018 and is primarily responsible for supervising and providing independent judgment to our Board. He is also the chairman of the audit committee and a member of the remuneration committee of our Company.

Mr. Tsoi has approximately 14 years of experience in accounting and financing. Mr. Tsoi worked as an audit intermediate in Yau and Wong, CPA from July 2005 to February 2007, an auditor in CCIF CPA Limited from February 2007 to January 2008, a senior auditor in Deloitte Touche Tohmatsu from January 2008 to August 2009, and first as a senior accountant and subsequently an assistant manager in Shinewing (HK) CPA Limited from August 2009 to November 2010. Mr. Tsoi also worked in Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), as the company secretary from June 2011 to September 2014 and financial controller from June 2011 to June 2014. Mr. Tsoi worked in China Harvest Finance Group Limited as the chief financial officer and company secretary from September 2014 to December 2015. Mr. Tsoi has worked as the chief financial officer and company secretary in Bao Shen Holdings Limited, a listed company on the Stock Exchange (stock code: 8151), since March 2018. Mr. Tsoi has also been appointed as the company secretary of Edensoft Holdings Limited, a listed company on the Stock Exchange (stock code: 1147), since 14 April 2020.

Mr. Tsoi graduated from the University of Technology, Sydney in Australia with a bachelor degree of business, majoring in accounting and finance in July 2005. He was accredited as a certified practicing accountant by CPA Australia and certified public accountant by Hong Kong Institute of Certified Public Accountants in November 2009 and May 2011, respectively.

### SUPERVISORS OF THE COMPANY (THE “SUPERVISORS”)

**Ms. XIE Yanli (謝豔麗)**, aged 44, has been appointed as our chairlady of our Supervisory Committee and a Supervisor since 3 May 2018. She is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Ms. Xie worked as a deputy officer in Market Development Service Centre from November 2001 to February 2018, where she was responsible for corporate management, daily operations, establishing party and discipline inspection of the centre. Ms. Xie has also served as a deputy general manager in Market Group since February 2018, where she is responsible for assisting the general manager in formulating the development strategy, internal management and daily operations of the company. Ms. Xie has been a vice president in Wenling City Market Association\* (溫嶺市市場協會) since June 2017. Ms. Xie completed a course in accounting from Hubei Agricultural College\* (湖北農學院) in the PRC in June 2002.

**Ms. YANG Mengjie (楊夢潔)**, aged 29, has been appointed as a Supervisor since 9 November 2018 and is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Ms. Yang joined Wenling City Shopping Centre Service Co., Ltd.\* (溫嶺市購物中心服務有限公司) as a clerk in February 2017 responsible for collecting and filing office documents and providing secretarial support, and was assigned to its shareholders, Market Group, as assistant to chief financial officer on 2 January 2019 responsible for consolidation and analysis of financial data of Market Group and its members. Ms. Yang was awarded a certificate of accounting profession issued by the Wenling City Finance Bureau\* (溫嶺市財政局) in July 2015. Ms. Yang graduated in art and design (environmental art and design) from Wenzhou University\* (溫州大學) in the PRC in June 2014.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. XIE Huihui (謝輝輝)**, aged 33, has been appointed as an employee representative Supervisor since 3 May 2018 and is primarily responsible for supervising the performance of duties by our Directors and members of the senior management of our Group.

Mr. Xie has about nine years of experience in the trading centre operation industry and has ample knowledge of business and risk management. Mr. Xie was the head of the shops management department of our Company from October 2009 to April 2018, where he was responsible for managing the properties of our Company, handling enquiries from regulatory authorities and overseeing the operations of our Company. Mr. Xie completed a course in software college computer information management from Ningbo Dahongying University (寧波大紅鷹學院) in the PRC in July 2008.

### SENIOR MANAGEMENT

**Mr. PAN Haihong (潘海鴻)**, aged 45, is a chief executive officer and general manager of our Company. For the biographical details of Mr. Pan, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. ZHOU Guilin (周桂林)**, aged 62, is a chief operating officer and deputy general manager of our Company. For the biographical details of Mr. Zhou, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. XIA Xianfa (夏仙法)**, aged 53, has been appointed as a deputy general manager of our Company since October 2009 and is primarily responsible for managing the properties, safety, human resources and operations of our Group.

Mr. Xia has about nine years of experience in the trading centre operation industry and has extensive knowledge in the areas of property and risk management. Mr. Xia served as village head in Qianyangxia Village from February 2005 to February 2014, where he was responsible for overall management and administration of the village. Mr. Xia received the awards of Advanced Individual in Village Work of 2005\* (2005年度村級工作先進個人) and Advanced Individual in Population and Birth Planning Work of 2009\* (2009年度人口與計劃生育工作先進個人) from the Chinese Communist Wenqiao Town Committee\* (中共溫嶠鎮委員會) of Wenqiao Town People’s Government in April 2006 and March 2010, respectively. Mr. Xia completed a course in agricultural economic management organised by Taizhou Administration Institute\* (台州行政學院) in the PRC in July 2011.

**Mr. XU Yi (徐亦)**, aged 27, has been appointed as a personnel of information disclosure of our Company since April 2018 and the joint company secretary of our Company since August 2018, and is primarily responsible for overseeing corporate governance, compliance, risk management and company secretarial matters of our Group.

Mr. Xu also worked as a person-in-charge in office of our Company from September 2016 to April 2018, where he was responsible for overseeing the daily operations, compliance and secretarial matters of our Company. Mr. Xu graduated from the University of Wales, the United Kingdom with a bachelor degree of arts, majoring in art and design (3D computer animation) in August 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

Measuring and cutting tools refer to those tools or products which are used in the machine manufacturing process for measuring and cutting or as auxiliaries for measuring and cutting. They mainly include measuring tools, cutting tools, and other tools. For the purpose of improving production efficiency and reducing the probability of systematic error, high-quality measuring and cutting functioning are important for manufacturing process.

In 2021, China successfully overcame multiple challenges such as the COVID-19 pandemic and the flood, forged ahead in the face of adversity, with the economy recovering steadily and gross domestic product (GDP) increasing by 8.1% over the previous year, exceeding expectations. According to the National Bureau of Statistics, in 2021, the added value of China's industries of designated size increased by 9.6% over the previous year, of which the added value of equipment manufacturing industry increased by 12.9% over the previous year, especially the high-tech manufacturing industry and equipment manufacturing industry grew rapidly, representing the continuous development of industrial production.

In December 2021, the Ministry of Industry and Information Technology of the PRC and other departments promulgated the "14th Five-Year" Development Plan of Smart Manufacturing (hereinafter referred to as the "**Smart Manufacturing Plan**"). It is noteworthy that the Smart Manufacturing Plan lists the tackling of advanced process technologies such as additive manufacturing and ultra-precision processing as one of the first key tasks. With the accelerated transformation of China's manufacturing industry, downstream sectors such as automotive, aerospace and 3C electronics are increasingly demanding processing precision. In the case of automobiles, for example, due to the accelerating renewal of vehicle models and the rising demand for higher grades, the demand for refined and efficient parts and components has increased accordingly. The machine tool industry is the foundation of industrial manufacturing. All parts and components requiring higher processing precision and finer surface roughness are required to be processed by machine tools, and the measuring and cutting tools are the key components of machine tools. When the manufacturing industry is further optimised and upgraded, it will promote the innovative development of high-end CNC (Computerised Numerical Control) measuring and cutting tools industry and stimulate the demand for measuring and cutting tools. The establishment of a manufacturing innovation centre of measuring and cutting tools industry will promote industrial clusters and industry chains to create linkage effects and coordinated development between the upstream and downstream of the manufacturing industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is primarily an established measuring and cutting tools trading centre operator in China. The Company was founded in 2003 and owns, operates and manages the four-storey trading centre located in Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC\* (中國浙江省溫嶺市溫嶠鎮前洋下村) (the “**Trading Centre**”), which is essentially for product displaying and trading purposes, such that it primarily targets to provide units for use as shops for the tenants to display, trade and promote their measuring and cutting tools products to their downstream customers. The principal activity and source of revenue of the Group were primarily derived from property leasing business through our operation of the Trading Centre for the measuring and cutting tools industry. The Group also engages in real estate investment, development and management business through its material subsidiary, Wenling Sunrise Real Estate Development Co., Ltd. The Group aims to expand such property leasing business in the measuring and cutting tools industry into the science and technology innovation park (the “**Science and Technology Innovation Park**”) on the land in Chenshan Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC\* (中國浙江省溫嶺市溫嶠鎮琛山村) (the “**Land**”) with a saleable area of approximately 55,425 sq.m..

### Trading Centre

Our Trading Centre is a four-storey commercial complex with basement with a total gross floor area (“**GFA**”) of approximately 74,204.7 sq.m., of which a total GFA of approximately 71,817.5 sq.m. is held for leasing to our tenants for their trading and products displaying purpose and a total GFA of approximately 2,387.2 sq.m. is held for our own offices. The land use rights of the Trading Centre were granted for a term expiring on 15 November 2046, which is a long-term lease, for commercial uses. As at 31 December 2021, the value of the Trading Centre was RMB866.0 million (2020: RMB851.0 million), the interest of which is wholly owned by the Group.

We lease the units on the first and the second floors to corporations and individuals selling measuring and cutting tools. We designate part of the third floor as the electronic business park for leasing to the measuring and cutting tools e-commerce business operators. We use the fourth floor as our office, and the basement as the car park. We also provide property management service and support services, namely the Wenling • China Measuring and Cutting Tools index (溫嶺 • 中國工量刃具指數) and the measuring and cutting tools financing service, to the tenants. As at 31 December 2021 and 2020, our Trading Centre had 595 and 610 tenants, respectively.

For the year ended 31 December 2021, 110 lease agreements expired, representing approximately 7.8% of the leased area of our Trading Centre. In light of such expiration, we held a public tender in July 2021 for the purpose of inviting interested corporations and individuals to submit bids for renting the relevant units of the e-commerce park (with lease agreements expiring in 2021) on the third floor in our Trading Centre (the “**2021 Public Tender**”). As a results of the 2021 Public Tender, all 110 units on the third floor have been successfully renewed. Accordingly, the occupancy rate of the Company’s e-commerce park on the third floor achieved 100%, and the average rent increased by 268.7% year-on-year as compared with the previous year.

## MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the information regarding the average monthly effective rent per square meter for the leased area in the Company's Trading Centre for the years.

	For the year ended 31 December	
	2021	2020
	Average monthly effective rent (in RMB per sq.m.)	Average monthly effective rent (in RMB per sq.m.)
First floor	383.6	341.1
Second floor	158.4	95.9
Third floor	39.6	20.7
Basement	17.1	14.3

*Note:*

Average monthly effective rent is calculated by total rental income dividend by the weighted average leased leaseable gross floor area ("LFA") during the years indicated.

For the year ended 31 December 2021, the LFA of the Trading Centre and the percentage of LFA leased to our tenants are 25,474.8 sq.m. and 98.18%, respectively (2020: 25,931.3 sq.m. and 99.4%). The percentage of LFA leased is calculated as the percentage of LFA retained and leased by the Company to the tenants comparing to the LFA for each of the years.

### Informatisation Service

With the rapid development of e-commerce in the PRC, the measuring and cutting tools online shops have been gaining popularity in recent years. In the first half of 2021, the Company launched the "measuring and cutting tools + Internet" training programme and the measuring and cutting tools "livestreaming representative" skills related training programme to provide relevant training for tenants, bringing the measuring and cutting tools industry into the digital world, focusing on promoting the development of short video e-commerce channels such as TikTok, Pinduoduo, Kwai, bilibili, Xiaohongshu, and striving to become a national model city for e-commerce in rural areas. Meanwhile, the Company also launched the "Qilin programme" which aimed to transform the Trading Centre into an internet-enabled Trading Centre through cross-border e-commerce training and cooperation agreements, etc. At present, the development of the Company's online market has achieved certain results. However, the Group still needs to step up its efforts and invest further resources to provide talent support for merchants in the development of the online market, continuously improve the professional service level of the e-commerce platform, promote the improvement and development of the online market, and help enterprises in the industry to compete in a healthy manner.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Value-added Services

In order to make good use of the advantages of the Trading Centre, in the first half of 2021, the Group also collaborated with local qualified testing centres to successfully build a cutting tool quality inspection centre and a provincial industrial quality service platform, which were included in the list of industrial innovation service complexes created by the Science and Technology Department of Zhejiang Province. We offer product testing services, quality inspection and other services to tenants in order to further improve the quality assurance of their products. Furthermore, the Trading Centre has set up a leadership group with Wenling Market Supervision Bureau to coordinate and enhance the protection of intellectual property rights in the market. It has effectively established a provincial standardised market for intellectual property rights protection, and has consistently passed the provincial five standardised market assessment and acceptance to develop a market service system integrating “convenience, intelligence, humanisation, specialisation and standardisation”, creating a healthier and sustainable business environment for tenants.

The Group will take Science and Technology Innovation Park as the carrier, deepen the cooperation with Taizhou University and jointly build Wenling Research Institute of Taizhou University to conduct subject research and address technical issues in the development of advanced coating technology and new materials, high-end equipment and industrial big data and other industries. We will promote development with technology, extend upstream and downstream of the industrial chain, and explore more high-end value-added services.

## Science and Technology Innovation Park

According to the F&S Report, the measuring and cutting tools industry is in demand of an industrial park, primarily because (1) there is a strong governmental support to develop a measuring and cutting tools industrial park; and (2) the existing measuring and cutting tools industrial park in Wenling City, Zhejiang Province, the PRC is immaturely developed. Considering the above and leveraging the Company’s experience, knowledge and network through years of being an active market player in the measuring and cutting tools industry, the Company believe that the development of the Science and Technology Innovation Park is an excellent opportunity to expand our business and to capitalise our market position in the measuring and cutting tools industry.

In December 2018, the Group successfully won the bid for the Land at the bid price of RMB63.5 million for the construction of the Science and Technology Innovation Park. The land use rights of the Science and Technology Innovation Park were granted for a term expiring on 27 January 2069, which is a long-term lease. The Group estimates that the floor area of the Science and Technology Innovation Park shall be approximately 116,000 sq.m., including a factory floor area of approximately 78,000 sq.m. and involving 13 standard factories and 2 integrated administration buildings. The Group will invest an aggregate of approximately RMB330.0 million to the Science and Technology Innovation Park (including acquisition of the Land). The Science and Technology Innovation Park is mainly for manufacturing purpose that it targets to provide units for use as factories and workshops, where upstream manufacturers would conduct manufacturing and production of measuring and cutting tools (as compared with our Trading Centre where tenants therein primarily use the units as shops to conduct product display, trading and promotion).

## MANAGEMENT DISCUSSION AND ANALYSIS

The construction of the Science and Technology Innovation Park was commenced in February 2020 and it is expected to commence operation in the second half of 2022. In September 2021, the Group obtained the pre-sale certificates of certain properties in the Science and Technology Innovation Park and completed the sales of 33 units with areas of approximately 54,000 sq.m. to 10 enterprises, accounting for approximately 98.28% of the saleable area. Such pre-sales units have been transferred from the investment properties to properties under development for sale and recorded at cost of approximately RMB121.7 million as at 31 December 2021. The Group believes that the Science and Technology Innovation Park will become a cluster area for measuring and cutting tools innovative enterprises after its official opening, serving as a key carrier for regional economic growth, opening up and attracting investment. Moreover, we expect to facilitate financing service as well as professional support to the tenants' manufacturing business.

As at 31 December 2021, the Group has incurred a total of approximately RMB264.8 million (2020: RMB170.6 million) for the acquisition of the Land and construction works, representing completion of 80.2% of total costs.

As at 31 December 2021, the fair value of the Science and Technology Innovation Park as investment property under development was approximately RMB148.6 million (2020: 176.3 million), the interest of which is wholly-owned by the Group.

### OUTLOOK

Looking ahead to 2022, the Company will endeavour to strengthen the position of the Trading Centre in the measuring and cutting tools industry, and carry out extensive innovation activities such as "five-star civilised and standardised market" and "smart market". We will continue to improve the construction, management and service level of the Trading Centre, realise the deep integration of Internet data, artificial intelligence and the real economy, and promote the transformation and upgrading to the smart market. Under the new development pattern, we will seize the opportunities presented by new business models and formats such as livestream e-commerce and cross-border e-commerce.

Based on the successful construction of the phase I of the measuring and cutting tools Science and Technology Innovation Park, the Group seizes the chance to continue planning and constructing the phase II of the Science and Technology Innovation Park project, so as to realise the new situation where the measuring and cutting tools building and the two phases of Science and Technology Innovation Park project will go hand in hand, and to build a comprehensive industrial cluster area integrating research and development, production and service, to achieve positive interaction and form a regional cluster economy of "industry + market".

The Group will deepen the collaboration with universities and scientific research institutions, and actively bring in renowned universities to jointly establish laboratories and research institutes for special cutting tools for rail transit, so as to guide the research and development of Wenling enterprises to connect with the marine and aerospace cutting tool supply system and the rail transit equipment manufacturing industry, and promote the healthy development of the industry, as well as explore more opportunities for the Group's future development.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

Total revenue increased by approximately 22.4% from approximately RMB46.7 million for the year ended 31 December 2020 to approximately RMB57.2 million for the year ended 31 December 2021, mainly because of (i) an increase in rental rate when the Group renewed the lease agreements with the tenants in the second half of 2020; (ii) the rental refund due to COVID-19 pandemic is lower in 2021.

### Cost of Services

Cost of services increased by approximately 9.0% from approximately RMB9.1 million for the year ended 31 December 2020 to approximately RMB9.9 million for the year ended 31 December 2021, mainly because of (i) an increase in staff costs; and (ii) an increase in utilities and property management fee as the Trading Centre was closed for around a month in February 2020 as part of the control measures under the COVID-19 pandemic which resulted in lower utilities and property management fee during the year ended 31 December 2020.

### Gross Profit and Gross Profit Margin

Gross profit increased by approximately 25.6% from approximately RMB37.6 million for the year ended 31 December 2020 to approximately RMB47.3 million for the year ended 31 December 2021, mainly because of the increase in the Group's revenue resulted from an increase in the rental rate. As such, gross profit margin increased from approximately 80.5% for the year ended 31 December 2020 to approximately 82.6% for the year ended 31 December 2021.

### Valuation Gains on Investment Properties

The valuation gains on the Group's investment properties increased from approximately RMB3.2 million for the year ended 31 December 2020 to approximately RMB19.9 million for the year ended 31 December 2021 mainly because of the increase in adjusted market rent of the comparable properties to the Group's investment properties during the year ended 31 December 2021.

### Other Net Income

Other net income increased by approximately RMB3.6 million from approximately RMB4.9 million for the year ended 31 December 2020 to approximately RMB8.5 million for the year ended 31 December 2021, primarily due to the granting of government subsidies of approximately RMB8.0 million to the Group for the Listing on the Stock Exchange for the year ended 31 December 2021 as compared with the granting of government subsidies of approximately RMB4.4 million in relation to compensation of the rental refund provided by the Group to the tenants for the year ended 31 December 2020 Group due to the COVID-19 pandemic.

### Administrative Expenses

Administrative expenses increased by approximately 28.4% from approximately RMB8.2 million for the year ended 31 December 2020 to approximately RMB10.5 million for the year ended 31 December 2021, primarily due to an increasing in professional fees after the Listing on the Stock Exchange.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Income Tax Expenses

Income tax expenses increased by approximately 76.0% from approximately RMB9.4 million for the year ended 31 December 2020 to approximately RMB16.5 million for the year ended 31 December 2021, primarily due to an increase in the Group's taxable profits and an increase in deferred taxation arising from increase in valuation gains on our investment properties. The effective tax rate were at 25.0% and 25.8% for the year ended 31 December 2020 and 2021, respectively.

## Profit for the Year and Net Profit Margin

As a result of the foregoing, profit for the year increased by approximately 68.5% from approximately RMB28.1 million for the year ended 31 December 2020 to approximately RMB47.3 million for the year ended 31 December 2021, and the Group's net profit margin increased from approximately 60.1% for the year ended 31 December 2020 to approximately 82.7% for the year ended 31 December 2021.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operations are primarily financed by cash generated from operating activities, the proceeds of capital contributions from the Shareholders, the net proceeds received from the global offering of the Company completed on 30 December 2020 (the "**Global Offering**") and the bank borrowings. As at 31 December 2020 and 2021, the Group had cash and cash equivalents of approximately RMB85.4 million and RMB78.7 million, respectively. Decrease in cash and cash equivalents is mainly attributing to repayment of the bank loans offset by the advance payment received from the customers in relation to pre-sales of properties under development for sale during the year ended 31 December 2021.

## Funding and Treasury Policy

The Group monitors its cash flows and cash balance on a regular basis and seek to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group will continue relying on cash flows from operation and other debt and equity financing to fund our working capital needs and finance part of our business expansion.

## Foreign Currency Exchange Risk

The transactions of the Group are denominated in RMB and most of the assets and all liabilities are denominated in RMB. The foreign exchange risk that the Group has to bear is low. During the year, the Group did not use any financial instrument for hedging the foreign currency risk.

## Bank Loans and Charge on Assets

As at 31 December 2021, the Group's bank loan amounted to approximately RMB15.0 million (2020: RMB80.5 million) which were pledged by the certain investment properties with a carrying amount of approximately RMB866.0 million (2020: RMB1,027.3 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

The bank loan as at 31 December 2021 was denominated in RMB at fixed interest rate of 5.5% per annum (2020: 4.3% to 5.5% per annum). The following table sets forth the amount of indebtedness of the Group as at the date indicated:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Repayment Schedule</b>		
<b>Bank loans</b>		
Within 1 year	15,000	40,462
After 1 year but within 2 years	–	40,000
<b>Total borrowings</b>	<b>15,000</b>	<b>80,462</b>

### Gearing Ratio

The gearing ratio decreased from 11.3% as at 31 December 2020 to 2.0% as at 31 December 2021, such decrease was a result of a decrease in bank loans of approximately RMB65.5 million.

Gearing ratio equals total debt divided by total equity as at the end of the year. Total debt includes all interest-bearing bank loans.

### Capital Expenditure

For the year ended 31 December 2021, the capital expenditure was approximately RMB49.1 million (2020: approximately RMB76.4 million). The capital expenditure incurred for the year ended 31 December 2021 primarily related to construction of the Science and Technology Innovation Park.

### Capital Commitments

As at 31 December 2021, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for approximately RMB102.4 million (2020: approximately RMB225.6 million).

### Contingent Liabilities

As at 31 December 2021, the contingent liabilities of the Group was approximately RMB37.5 million (2020: nil) in relation to the mortgage loan guarantees provided by the Group to the banks. In the opinion of the Directors, the fair values of these financial guarantee contracts of the Group at initial recognition are insignificant and the Directors consider that the possibility of default of these financial guarantee contracts is remote. Accordingly, no value has been recognised at the inception of the guarantee contracts as at 31 December 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS

### SIGNIFICANT INVESTMENTS HELD, AND MATERIAL ACQUISITIONS AND DISPOSALS

Saved as disclosed in this report, the Group had no significant investments held or material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2021.

### EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2021, the Group had total of 27 employees (2020: 28 employees). For the year ended 31 December 2021, the Group has incurred total staff costs of approximately RMB2.6 million (2020: RMB2.1 million), representing an increase of approximately 23.2% as compared with those for the year ended 31 December 2020 mainly resulted from the absence of exemption of payment of certain social insurance granted by the government due to the COVID-19 pandemic and an increment of the staff salaries during the period as compared with the corresponding period in 2020.

The Group believe that its employees are one of the most valuable assets and have greatly contributed to its success. The Group provide training to its employees to enhance their business efficiency and conduct yearly reviews of their performance. The Group believes that these initiatives have contributed to stronger work incentive among the employees. In addition, the salaries of our employees are mainly determined with reference to their seniority and performance, and the total compensation includes salaries, performance-based bonuses and special awards.

### USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on 30 December 2020. The net proceeds from the Company's issue in a total of 20,000,000 new H Shares in the Global Offering amounted to approximately HK\$61.9 million (after deducting underwriting commissions and related Listing expenses which equivalent to approximately RMB52.1 million) with the final offer price of HK\$6.25 per H Share. For the period from the Listing Date to 31 December 2021, the Company has utilised net proceeds from the Global Offering amounting to approximately RMB42.3 million. The Company intends to use the remaining net proceeds of approximately RMB9.7 million in the same manner and proportion as set out in the section headed "Future Plans and Use of Proceeds" contained in the prospectus of the Company dated 11 December 2020 (the "**Prospectus**").

## MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2021, the Group has applied the net proceeds as follows:

Usage	%	Budgeted amount as set out in the Prospectus RMB'000	Proceeds brought forward from previous year RMB'000	Actual usage up to 31 December 2021 RMB'000	Remaining balance as at 31 December 2021 RMB'000	Expected timeline of full utilisation of the balance
- Finance partly the costs and expenses for the establishment and construction of the Science and Technology Innovation Park	70.0	36,441	36,441	36,441	-	
- Finance further development of the Third Floor, including refurbishment and renovation of the Third Floor	20.0	10,412	10,412	700	9,712	July 2022
- General working capital and other general corporate purposes	10.0	5,205	5,205	5,205	-	
	100.0	52,058	52,058	42,346	9,712	

As at 31 December 2021, the unused balanced of the net proceeds from the Global Offering of approximately RMB9.7 million was placed into short-term demand.

# DIRECTORS' REPORT

The Directors hereby presents this directors' report of the Group for the year ended 31 December 2021.

## PRINCIPAL ACTIVITIES

The Company was incorporated in The People's Republic of China (the "PRC") as a joint stock company with limited liability on 14 May 2003. The principal activity of the Group is property leasing.

## BUSINESS REVIEW

Further discussion and analysis of these activities for the year ended 31 December 2021 and a discussion on the Group's future development are set out in the section headed "Management Discussion and Analysis" on pages 12 to 21 of this annual report.

## KEY RISKS AND UNCERTAINTIES

The main activities of the Group is property leasing. It is exposed to a variety of main risks including (i) risks relating to the property leasing business; (ii) risks relating to the industry; and (iii) risks relating to conducting business in the PRC. Details of the above main risks are as below:

### Risks Relating to the Property Leasing Business

The profitability of the Group has declined due to decrease in valuation gains of the investment properties, and the prospects are dependent on various factors, including but not limited to the appraisal value of the properties, limited revenue growth, increase in cash outflow in respect of interests for the loan, the ability to execute our expansion plan successfully in light of the uncertainties involved in the establishment of the Industrial Park and our ability to cope with the fierce market competition from different market players.

### Risks Relating to the Industry

The cyclical nature of the real estate, the manufacturing and the Measuring and Cutting Tools industries and the macro-economic situation in the PRC and worldwide could adversely affect the results of operations of the Group.

The Group is a Measuring and Cutting Tools trading centre operator and the principal activity and source of revenue are primarily derived from property leasing business through the operation of the Trading Centre. A significant portion of the net profits were also attributable to the valuation gains on the investment property. As such, the results of operations are and will continue to be affected by the cyclical nature of the real estate industry in the PRC. The value of our investment properties, i.e. the Trading Centre, has been appreciated, also maintained a steady rental rate for our Trading Centre.

### Risks Relating to Conducting Business in the PRC

The business operations may be materially and adversely affected by any change in the political, economic and social policies and conditions of Zhejiang Province, the PRC.

The business and results of operations of the Group are subject to the political, economic and social policies and conditions of Zhejiang Province, the PRC, as all of the revenue is derived from the operations in Zhejiang Province, the PRC and the major assets are located in Zhejiang Province, the PRC. The ability to conduct and expand the business operations in Zhejiang Province, the PRC depends on a number of factors that are beyond the control, including macro-economic and other market conditions and credit availability from lending institutions. In order to control inflation and promote economic growth, the PRC Government has introduced certain macro-economic policies, such as imposing commercial bank lending guidelines, which have the effect of restricting lending to certain industries. Some of these macro-economic policies and lending policies may limit the ability to obtain financing, thus reducing the ability to implement the business strategies. There is no assurance that the Zhejiang Provisional Government and the PRC Government as a whole will not introduce more restrictive or onerous policies in the future. Any change in the political, economic and social policies and conditions of Zhejiang Province, the PRC may bring uncertainty to the business operations and may materially and adversely affect the prospects and results of operations.

### TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest and five largest customers for the year ended 31 December 2021 accounted for approximately 0.8% (2020: 0.8%) and 3.3% (31 December 2020: 2.8%), respectively, of the Group's total revenue from sales operations. Due to the nature of the business of the Group, it does not have any supplier.

To the best of the Directors' knowledge, none of the Directors or their respective close associates, and none of the existing Shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers.

### RELATIONSHIPS WITH EMPLOYEES AND CUSTOMERS

Further discussion of the relationship with employees and customers is set out in the section headed "Environmental, Social and Governance Report" on pages 52 to 64 of this annual report.

# DIRECTORS' REPORT

## FINAL DIVIDEND

### Proposal for profit distribution of 2021

Audited profit available for distribution to shareholders of the Company as at 31 December 2021 calculated in accordance with PRC Accounting Standards for Business Enterprises amounted to approximately RMB71 million.

The Board of Directors of the Company has recommended profit distribution for 2021 of RMB0.32 in cash (before tax) per share as the final dividend based on the number of shares held by shareholders registered as at the close of business on the record date for profit distribution and dividend payment. The dividend will be denominated and declared in RMB, and distributed to the domestic shareholders in RMB and to the overseas shareholders in Hong Kong Dollars. The exchange rate for the dividend calculation in Hong Kong Dollars is based on the average benchmark exchange rate of RMB against Hong Kong Dollar as published by the People's Bank of China one week preceding the date of the declaration of such dividend.

The Company expects to pay the dividend to shareholders on 27 June 2022.

In respect of the Company's distribution of final Dividend to Shareholders whose names appear on the H share register of the Company on 20 May 2022, the Company will process income tax payable on dividends and profit distributions in accordance with relevant taxation laws and regulations of China. The details are as follow:

1. In connection with overseas non-resident corporate H shareholders, a 10% enterprise income tax to be withheld and paid on behalf of such shareholders by the Company shall apply in accordance with relevant provisions of the "Notice of the State Administration of Taxation on Issues Concerning the Withholding and Payment of Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Overseas Non-Resident Corporate H shareholders" (Guo Shui Han 2008 No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函2008897號)). Any H shares registered in the name of non-resident corporate H shareholders, including HKSCC Nominees Limited, other nominees or trustees, or other organisations or groups, will be treated as shares being held by non-resident corporate H shareholders, and consequently will be subject to the withholding of the enterprise income tax.
2. Pursuant to relevant laws and regulations and regulatory documents such as the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》), the Implementation Rules of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Nonresidents under Tax Treaties (Tentative) (Guo Shui Fa 2009 No. 124) (《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法(試行)〉的通知》(國稅發2009124號)) and the Notice of the State Administration of Taxation on the Issues Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa 1993 No. 45 (Guo Shui Han 2011 No. 348) (《國家稅務總局關於國稅發199345號文件廢止後有關個人所得稅徵管問題的通知》(國稅函2011348號)), dividends received by overseas resident individual shareholders from the stocks issued by domestic non-foreign investment enterprises in Hong Kong is subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of the stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or the tax arrangements between Mainland China and Hong Kong (Macau). For individual holders of H shares, dividends payable to them are subject to the individual income tax withheld at a tax rate of 10% in general unless otherwise specified by the tax regulations and the relevant tax agreements.

## DIVIDEND POLICY

The Company has adopted a dividend policy (the “**Dividend Policy**”) to allow the Shareholders to participate in the Company’s profits whilst retaining adequate reserves for the Group’s future growth.

### Determination Mechanism

Subject to the approval of the Shareholders and requirement of the relevant laws, the Company shall pay annual dividends to the Shareholders if the Group is profitable, the market environment is stable and there is no significant investment or commitment made by the Group. The Company has no fixed dividend policy specifying a dividend payout ratio. The declaration, payment and amount of dividends will be subject to our discretion, taking into consideration the criteria described below. The remaining net profits will be used for the Group’s development and operations. This dividend policy allows the Company to declare special dividends from time to time in addition to the annual dividends.

The Company’s ability to pay dividends will depend upon, among other things, the Group’s current and future operations, financial position, development pipeline, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company’s subsidiaries and associates, as well as any other conditions or factors which the Board deems relevant and having regard to the directors’ fiduciary duties.

### Approval and Payment Procedures

Details of the procedures on dividend and other payments of the Company have been set out in articles 163 of the articles of association of the Company (the “**Articles of Association**”) posted on the websites of the Company and the Stock Exchange.

### Review and Monitor of this Policy

The form, frequency and amount of dividend payment by the Company are subject to any restriction under the laws of the PRC and the Articles of Association. The Board reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the dividend policy at any time, and this dividend policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

## SHARE CAPITAL

The share capital structure of the Company as at 31 December 2021 is set out as follows:

<b>Class of shares</b>	<b>Number of shares</b>	<b>Proportion (%)</b>
Domestic Shares	60,000,000	75.00
H Shares	20,000,000	25.00
<b>Total</b>	<b>80,000,000</b>	<b>100.00</b>

Details of the movements in share capital of the Company during the year are set out in note 27(a) to the consolidated financial statements.

## DIRECTORS' REPORT

### COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2021, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

### ANNUAL GENERAL MEETING

The annual general meeting of the Company ("**AGM**") will be held on 6 May 2022. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched to the Shareholders by the Company.

### CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from 28 April 2022 to 6 May 2022, both days inclusive, during which period no transfer of H shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all transfer of H shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's H share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 27 April 2022, being the business day before the first day of closure of the register of members.

For the purpose of ascertaining shareholders' entitlement to the final dividend, the register of members of the Company will be closed from 13 May 2022 to 20 May 2022, both days inclusive, during which period no transfer of H shares of the Company will be registered. In order to establish entitlements to the final dividend, all transfer of H shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's H share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 12 May 2022, being the business day before the first day of closure of the register of members. The members of the H shares whose names appear on the H share register of members on 20 May 2022 will be entitled to receive the final dividend.

### ENVIRONMENTAL PROTECTION

The Group uphold the concept of sustainable development, encourages environmental protection and strive to promote its awareness within the Group.

The Company considers the staff, shareholders and potential investors, government authorities, and suppliers as the key stakeholders, and values highly the expectations and opinions from the stakeholders on environment protection. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an environmental, social and governance report has been published.

For further information regarding our performance on environment, society and governance and compliance with relevant environmental laws and regulations during the current financial year, please refer to the section headed "Environmental, Social and Governance Report" on pages 52 to 64 in this annual report.

## DIRECTORS' REPORT

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on it. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

### RESERVES

As at 31 December 2021, reserves available for distribution of the Company amounted to RMB71 million (31 December 2020: RMB47.0 million).

### PRE-EMPTIVE RIGHTS

According to the laws of the PRC and the Articles of Association, there are no provisions on the pre-emptive rights to offer new Shares by the Company to its existing Shareholders on a pro rata basis.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2021 and up to the date of this annual report, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

### DIRECTORS

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

#### Executive Directors

Mr. PAN Haihong (*Chief executive officer*)  
Mr. ZHOU Guilin

#### Non-executive Directors

Mr. HUANG Qun (*Chairman of the Board*)  
Mr. WANG Wenming  
Mr. CHENG Jinyun  
Mr. YE Yunzhi

#### Independent Non-executive Directors

Mr. XU Wei  
Mr. JIN Hongqing  
Mr. TSOI Ka Shing

The biographical details of the Directors are disclosed in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 7 to 11 in this annual report.

## DIRECTORS' REPORT

### SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, each of the Directors and Supervisors has entered into a service contract in respect of, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with the Company, for a term of three (3) years subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the Articles of Association and the applicable laws, rules or regulations.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with the Company (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year or subsisted at the end of the year ended 31 December 2021.

### REMUNERATION OF THE DIRECTORS AND SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and the five highest paid individuals are set out in notes 9 and 10 to the consolidated financial statements.

In 2021, the aggregate amount of fees, salaries, allowances, discretionary bonuses, contributions to retirement benefit scheme and other benefits in kind (if applicable) paid by the Company to Supervisors were approximately RMB103,000.

The following table sets forth the remuneration of the Supervisors details of:

<b>Year ended</b> <b>31 December 2021</b>	<b>Directors'</b> <b>fees</b> RMB'000	<b>Salaries,</b> <b>allowances</b> <b>and benefits</b> <b>in kind</b> RMB'000	<b>Discretionary</b> <b>bonuses</b> RMB'000	<b>Contributions</b> <b>to retirement</b> <b>benefit</b> <b>scheme</b> RMB'000	<b>Total</b> RMB'000
<b>Supervisors</b>					
Xie Yanli	–	–	–	–	–
Yang Mengjie	–	–	–	–	–
Xie Huihui	–	90	–	13	103
	–	90	–	13	103

The emoluments of the Directors and Supervisors and the salaries of the senior management are determined with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of the Group.

### RIGHTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2021 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors and Supervisors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year ended 31 December 2021.

### DIRECTORS' AND SUPERVISORS' COMPETING INTERESTS

None of the Controlling Shareholders (as defined under the Listing Rules), Directors and Supervisors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with the Group's business.

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Details of corporate governance practice adopted by the Company are set out in the section of "Corporate Governance Report" of this annual report.

### INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2021, none of our Directors, Supervisors or the chief executives of the Company has any interests or short positions in any Shares, underlying shares of the Company (the "**Share**") and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**"), to be notified to the Company and the Stock Exchange.

## DIRECTORS' REPORT

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

As at 31 December 2021, the interests and short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of SFO and based on the information available were as follows:

Name of Shareholders	Capacity/ Nature of interest	Number and class of securities <i>(Note 1)</i>	Approximate percentage of shareholding in the relevant class of Shares <i>(Note 2)</i>	Approximate percentage of shareholding in total share capital of the Company <i>(Note 3)</i>
Wenling City Market Group Company Limited* (溫嶺市市場集團有限公司) ("Market Group")	Beneficial owner <i>(Note 5)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Market Development Service Centre* (溫嶺市市場開發服務中心) ("Market Development Service Centre")	Interest in controlled corporation <i>(Notes 4 &amp; 5)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Qiaoling Investment Development Company Limited* (溫嶺市嶠嶺投資發展有限公司) ("Qiaoling Investment")	Beneficial owner <i>(Note 6)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town People's Government* (溫嶺市溫嶠鎮人民政府) ("Wenqiao Town People's Government")	Interest in controlled corporation <i>(Notes 4 &amp; 6)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Maowei Investment Company Limited* (溫嶺市茅威投資有限公司) ("Maowei Investment")	Beneficial owner <i>(Note 7)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Maoyang Village Share Economic Cooperative* (溫嶺市溫嶠鎮茅洋村股份經濟合作社) ("Maoyang Village Share Economic Cooperative")	Interest in controlled corporation <i>(Note 7)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Maoyang Village Villagers Committee* (溫嶺市溫嶠鎮茅洋村村民委員會) ("Maoyang Village Committee")	Interest in controlled corporation <i>(Notes 4 &amp; 7)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Qianyang Investment Company Limited* (溫嶺市前洋投資有限公司) ("Qianyang Investment")	Beneficial owner <i>(Note 8)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%

## DIRECTORS' REPORT

Name of Shareholders	Capacity/ Nature of interest	Number and class of securities <i>(Note 1)</i>	Approximate percentage of shareholding in the relevant class of Shares <i>(Note 2)</i>	Approximate percentage of shareholding in total share capital of the Company <i>(Note 3)</i>
Wenling City Wenqiao Town Qianyangxia Village Share Economic Cooperative* (溫嶺市溫嶠鎮前洋下村股份經濟合作社) ("Qianyangxia Village Share Economic Cooperative")	Interest in controlled corporation <i>(Note 8)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Qianyangxia Village Villagers Committee* (溫嶺市溫嶠鎮前洋下村村民委員會) ("Qianyangxia Village Committee")	Interest in controlled corporation <i>(Notes 4 &amp; 8)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Shangyu Investment Company Limited* (溫嶺市上宇投資有限公司) ("Shangyu Investment")	Beneficial owner <i>(Note 9)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Shangjie Village Share Economic Cooperative* (溫嶺市溫嶠鎮上街村股份經濟合作社) ("Shangjie Village Share Economic Cooperative")	Interest in controlled corporation <i>(Note 9)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Shangjie Village Villagers Committee* (溫嶺市溫嶠鎮上街村村民委員會) ("Shangjie Village Committee")	Interest in controlled corporation <i>(Note 6)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Zhongjie Hede Investment Company Limited* (溫嶺市中街和德投資有限公司) ("Zhongjie Hede Investment")	Beneficial owner <i>(Note 10)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Zhongjie Village Share Economic Cooperative* (溫嶺市溫嶠鎮中街村股份經濟合作社) ("Zhongjie Village Share Economic Cooperative")	Interest in controlled corporation <i>(Note 10)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Zhongjie Village Villagers Committee* (溫嶺市溫嶠鎮中街村村民委員會) ("Zhongjie Village Committee")	Interest in controlled corporation <i>(Notes 4 &amp; 10)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Botao Investment Company Limited* (溫嶺市博濤投資有限公司) ("Botao Investment")	Beneficial owner <i>(Note 11)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%

## DIRECTORS' REPORT

Name of Shareholders	Capacity/ Nature of interest	Number and class of securities <i>(Note 1)</i>	Approximate percentage of shareholding in the relevant class of Shares <i>(Note 2)</i>	Approximate percentage of shareholding in total share capital of the Company <i>(Note 3)</i>
Wenling City Wenqiao Town Xuzhai Village Share Economic Cooperative* (溫嶺市溫嶠鎮許宅村股份經濟合作社) ("Xuzhai Village Share Economic Cooperative")	Interest in controlled corporation <i>(Note 11)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Xuzhai Village Villagers Committee* (溫嶺市溫嶠鎮許宅村村民委員會) ("Xuzhai Village Committee")	Interest in controlled corporation <i>(Notes 4 &amp; 11)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Zhang Laoqiao Investment Company Limited* (溫嶺市張老橋投資有限公司) ("Zhang Laoqiao Investment")	Beneficial owner <i>(Note 12)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Zhang Laoqiao Village Share Economic Cooperative* (溫嶺市溫嶠鎮張老橋村股份經濟合作社) ("Zhang Laoqiao Village Share Economic Cooperative")	Interest in controlled corporation <i>(Note 12)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Wenling City Wenqiao Town Zhang Laoqiao Village Villagers Committee* (溫嶺市溫嶠鎮張老橋村村民委員會) ("Zhang Laoqiao Village Committee")	Interest in controlled corporation <i>(Notes 4 &amp; 12)</i>	58,200,000 Domestic Shares (L)	97.00%	72.75%
Jiaxing Yuantai Equity Investment Partnership (Limited Partnership)* (嘉興元泰股權投資合夥企業(有限合夥))	Interest in controlled corporation <i>(Note 13)</i>	5,980,000 H Shares (L)	29.90%	7.48%
Hongkong Regan Investment Center Co., Limited* (香港雷根投資中心有限公司)	Beneficial owner <i>(Note 13)</i>	5,980,000 H Shares (L)	29.90%	7.48%
Zhejiang QJmotor Co., Ltd. (浙江錢江摩托股份有限公司)	Beneficial owner	3,275,813 H Shares (L)	16.38%	4.09%
Wanbangde (Hangzhou) Investment and Management Co., Ltd. (萬邦德(杭州)投資管理有限公司)	Beneficial owner	1,605,151 H Shares (L)	8.03%	2.01%
Wenling Longxi Corporate Management Centre (Limited Partnership) (溫嶺龍溪企業管理中心(有限合夥))	Interest in controlled corporation <i>(Note 14)</i>	1,266,000 H Shares (L)	6.33%	1.58%

## DIRECTORS' REPORT

Name of Shareholders	Capacity/ Nature of interest	Number and class of securities <i>(Note 1)</i>	Approximate percentage of shareholding in the relevant class of Shares <i>(Note 2)</i>	Approximate percentage of shareholding in total share capital of the Company <i>(Note 3)</i>
Shimge Pump Industry (Zhejiang) Co., Ltd. (新界泵業(浙江)有限公司)	Interest in controlled corporation <i>(Note 14)</i>	1,266,000 H Shares (L)	6.33%	1.58%
Shimge (HongKong) Co., Limited (新界泵業(香港)有限公司)	Beneficial owner <i>(Note 14)</i>	1,266,000 H Shares (L)	6.33%	1.58%
Zhejiang Zomax Transmission Co., Ltd. (浙江中馬傳動股份有限公司)	Beneficial owner	1,097,395 H Shares (L)	5.49%	1.37%
Han Yi (韓軼)	Beneficial owner	1,024,500 H Shares (L)	5.12%	1.28%

### Notes:

- The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Domestic Shares or H Shares.
- The calculation is based on the percentage of shareholding in the relevant class of Shares.
- The calculation is based on the total number of 80,000,000 Shares in issue comprising 60,000,000 Domestic Shares and 20,000,000 H Shares as at 31 December 2021.
- Pursuant to the Concert Party Agreement and Concert Party Supplemental Agreement, details of which are set out in paragraph headed "History, Development and Reorganisation – Concert Party Arrangement" of the Prospectus, immediately following completion of the Global Offering, Market Development Service Centre, Wenqiao Town People's Government, Qianyangxia Village Committee, Maoyang Village Committee, Zhongjie Village Committee, Shangjie Village Committee, Xuzhai Village Committee and Zhang Laoqiao Village Committee are acting in concert with one another and each of them is deemed to exercise or control the exercise of 72.75% of the voting power at general meetings of the Company, and is therefore deemed to be interested under the SFO.
- Market Development Service Centre holds the entire equity interest of Market Group. Therefore, under the SFO, Market Development Service Centre is deemed or taken to be interested in all the Shares which are beneficially owned by Market Group. The Company was informed by Market Group that on 28 February 2022, Market Development Service Centre transferred the entire equity interest of Market Group to Wenling State Owned Assets Investment Group Co., Ltd. (溫嶺市國有資產投資集團有限公司) and Market Development Service Centre ceased to be interested in all the Shares which are beneficially owned by Market Group.
- Wenqiao Town People's Government holds the entire equity interest of Qiaoling Investment. Therefore, under the SFO, Wenqiao Town People's Government is deemed or taken to be interested in all the Shares which are beneficially owned by Qiaoling Investment.

## DIRECTORS' REPORT

7. Maoyang Village Committee holds the entire equity interest of Maoyang Village Share Economic Cooperative which holds the entire equity interests of Maowei Investment. Therefore, under the SFO, each of Maoyang Village Committee and Maoyang Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Maowei Investment.
8. Qianyangxia Village Committee holds the entire equity interest of Qianyangxia Village Share Economic Cooperative which holds the entire equity interests of Qianyang Investment. Therefore, under the SFO, each of Qianyangxia Village Committee and Qianyangxia Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Qianyang Investment.
9. Shangjie Village Committee holds the entire equity interest of Shangjie Village Share Economic Cooperative which holds the entire equity interests of Shangyu Investment. Therefore, under the SFO, each of Shangjie Village Committee and Shangjie Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Shangyu Investment.
10. Zhongjie Village Committee holds the entire equity interest of Zhongjie Village Share Economic Cooperative, which holds the entire equity interests of Zhongjie Hede Investment. Therefore, under the SFO, each of Zhongjie Village Committee and Zhongjie Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Zhongjie Hede Investment.
11. Xuzhai Village Committee holds the entire equity interest of Xuzhai Village Share Economic Cooperative which holds the entire equity interests of Botao Investment. Therefore, under the SFO, each of Xuzhai Village Committee and Xuzhai Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Botao Investment.
12. Zhang Laoqiao Village Committee holds the entire equity interest of Zhang Laoqiao Village Share Economic Cooperative which holds the entire equity interests of Zhang Laoqiao Investment. Therefore, under the SFO, each of Zhang Laoqiao Village Committee and Zhang Laoqiao Village Share Economic Cooperative is deemed or taken to be interested in all the Shares which are beneficially owned by Zhang Laoqiao Investment.
13. Jiaxing Yuantai Equity Investment Partnership (Limited Partnership) holds the entire equity interest of Hongkong Regan Investment Center Co., Limited. Therefore, under the SFO, each of Jiaxing Yuantai Equity Investment Partnership (Limited Partnership) is deemed or taken to be interested in all the Shares which are beneficially owned by Hongkong Regan Investment Center Co., Limited.
14. Wenling Longxi Corporate Management Centre (Limited Partnership) holds 40% equity interest of Shimge Pump Industry (Zhejiang) Co., Ltd. which holds the entire equity interest of Shimge (Hong Kong) Co., Limited. Therefore, under the SFO, each of Wenling Longxi Corporate Management Centre (Limited Partnership) and Shimge Pump Industry (Zhejiang) Co., Ltd. is deemed or taken to be interested in all the Shares which are beneficially owned by Shimge (HongKong) Co., Limited.

Save as disclosed above, as at the date of this report, no person had interest or short position in the Shares or underlying Shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## EQUITY-LINKED AGREEMENTS

During the year ended 31 December 2021, the Company did not enter into any equity-linked agreements, nor did any other equity-linked agreements exist.

## 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, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

### PERMITTED INDEMNITY PROVISIONS

The Company has arranged for appropriate liability insurance to indemnify the Directors, Supervisors and senior officers for their liabilities arising out of corporate activities. For the year ended 31 December 2021, no claim has been made against the Directors, Supervisors and senior officers.

### DIRECTORS' AND SUPERVISORS INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director/Supervisor or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under 31 December 2021 or at any time during the year ended 31 December 2021.

### CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2021.

### BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2021 are set out in note 22 to the consolidated financial statements.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

### PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2021, the Group acquired additional property, plant and equipment of approximately RMB20 thousand. Details of the movements are set out in note 13 to the consolidated financial statements.

### RETIREMENT BENEFIT PLAN

The Group participates in defined contribution retirement benefit plan managed by the PRC local government authorities for the Group's eligible employees in the PRC (the "**Defined Contribution Scheme**"). The Group's contributions to the Defined Contribution Scheme vest fully with the employees upon such contributions being made. There was no forfeited contributions under the Defined Contribution Scheme for the year ended 31 December 2021 and there was no forfeited contribution available for the Group to reduce its existing level of contributions to the Defined Contribution Scheme as at 31 December 2021. Particulars of these retirement plans are set out in note 7(b) to the consolidated financial statements.

## DIRECTORS' REPORT

### CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors, namely Mr. XU Wei, Mr. JIN Hongqing and Mr. TSOI Ka Shing, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

### DONATIONS

For the year ended 31 December, 2021, the Group made charitable and other donations totaling approximately RMB38,000.

### RELATED PARTY TRANSACTION

Details of related party transactions of the Group are set out in note 31 to the consolidated financial statements. None of the related party transactions disclosed in note 31 to the consolidated financial statements constitute connected transaction or continuing connected transaction (as defined in Chapter 14A of the Listing Rules) of the Company for the year ended 31 December 2021. Accordingly, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

### DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Market Group, Market Development Service Centre, Qiaoling Investment, Wenqiao Town People's Government, Maowei Investment, Maoyang Village Share Economic Cooperative, Maoyang Village Committee, Qianyang Investment, Qianyangxia Village Share Economic Cooperative, Qianyangxia Village Committee, Shangyu Investment, Shangjie Village Share Economic Cooperative, Shangjie Village Committee, Zhongjie Hede Investment, Zhongjie Village Share Economic Cooperative, Zhongjie Village Committee, Botao Investment, Xuzhai Village Share Economic Cooperative, Xuzhai Village Committee, Zhang Laoqiao Investment, Zhang Laoqiao Village Share Economic Cooperative and Zhang Laoqiao Village Committee (the "**Covenantors**") in respect of the compliance with the terms of the non-competition undertakings (the "**Non-competition Undertakings**"), under the deed of non-competition entered into between the Covenantors and the Company. Each of the Covenantors has confirmed and declared that he/it had strictly complied with the Non-competition Undertakings without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Non-competition Undertakings and consider that the terms of the Non-competition Undertakings have been complied with by each of the Covenantors for the year ended 31 December 2021.

### EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period, the Group provided mortgage loan guarantees to banks in the range of RMB5.32 million to RMB14.09 million per unit. These guarantees will be released upon receiving the property ownership certificate of the respective properties by the banks as a pledge for security to the mortgage loans granted. In the opinion of the Directors, the fair values of these financial guarantee contracts of the Group at initial recognition are insignificant and the Directors consider that the possibility of default of these financial guarantee contracts is remote.

In December 2021, the Company entered into a subscription agreement to subscribe 20% shares of an independent third-party company (the "**Target Company**") with a consideration of RMB8.0 million. The principal business of the Target Company engages in provision for a platform to provide one-stop service such as technology support service, equipment service and raw material supply service which will be available to the Science and Technology Innovation Park tenants. The Directors considered that the Target Company can enable and enhance the Company's provision of value added services and to benefit from the synergy created. In addition, the business collaboration will also bring further business opportunities to the Group. The Company have fully paid the consideration on 11 January 2022.

### AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2021 have been audited by KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance.

The Company appointed KPMG as auditor of the Company for the year ended 31 December 2021. KPMG will retire, and being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

**Wenling Zhejiang Measuring and Cutting Tools**

**Trading Centre Company Limited\***

温岭浙江工量刀具交易中心股份有限公司

**PAN Haihong**

*Director and Chief Executive Officer*

Wenling City, the PRC, 30 March 2022

\* For identification purpose only

# SUPERVISORS' REPORT

To the Shareholders,

For the year ended 31 December 2021, the Supervisory Committee of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (the "**Supervisory Committee**"), in compliance with the provision of the Company Law, the Listing Rules and the articles of association of the Company, under their fiduciary duties, took an active role to work reasonably and cautiously to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee attended all the Board meetings, the annual general meeting, and class meetings of the Company. It provided reasonable suggestions and opinions to the Board in respect of the operations and development plans of the Company. It also strictly and effectively monitored and supervised the management of the Company, to ensure that it was in compliance with the PRC laws and the articles of association of the Company, and in the interests of shareholders and employees when making significant policies and decisions.

We have reviewed and agreed to the Directors' report, audited consolidated financial statements to be proposed by the Board for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, chief executive officer and other senior management of the Company had during the year strictly observed their fiduciary duties, acted diligently and exercised their authorities faithfully in the best interests of the Company and the shareholders as a whole. None of the Directors, chief executive officer and members of the senior management had been found to have abused their authorities, damaged the interests of the Company and infringed upon the interests of shareholders and employees of the Company.

The Supervisory Committee is satisfied with the achieved operating results and cost-effectiveness of the Company in 2021 and has great confidence in the future of the Company.

Finally, I, on behalf of the Supervisory Committee, would like to thank all shareholders and staff of the Company for their support and patronage for the Supervisory Committee.

By Order of the Supervisory Committee  
**Wenling Zhejiang Measuring and Cutting Tools  
Trading Centre Company Limited\***  
温岭浙江工量刃具交易中心股份有限公司

**Ms. XIE Yanli**  
*Chairlady*

Wenling City, the PRC, 30 March 2022

# CORPORATE GOVERNANCE REPORT

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Company is committed to maintain high standards of corporate governance and protect the interests of its Shareholders in an open manner.

The Board has adopted the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (“**CG Code**”) set out in Appendix 14 to the Listing Rules. Throughout year ended 31 December 2021 and up to the date of this annual report, the Company has fully complied with the Code Provisions.

The Company strictly complied with the CG Code. The Directors review the corporate governance policies and the compliance with the CG Code for each financial year. On 1 January 2022, the amendments to the CG Code (the “**New CG Code**”) came into effect and the requirements under the New CG code will apply to corporate governance reports for financial year commencing on or after 1 January 2022. The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of the shareholders and investors.

## BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established three Board committees, being the audit committee (the “**Audit Committee**”), the remuneration committee (the “**Remuneration Committee**”), and the nomination committee (the “**Nomination Committee**”) (each a “**Board Committee**” and collectively the “**Board Committees**”), to oversee different areas of the Company’s affairs. The Board has delegated the authority for day-to-day management and operation of the Group to the senior management of the Group. As of the date of this annual report, the composition of the Board is as follows:

### Executive Directors:

Mr. PAN Haihong (*Chief Executive Officer*)  
Mr. ZHOU Guilin

### Non-executive Directors:

Mr. HUANG Qun (*Chairman of the Board*)  
Mr. WANG Wenming  
Mr. CHENG Jinyun  
Mr. YE Yunzhi

### Independent Non-executive Directors:

Mr. XU Wei  
Mr. JIN Hongqing  
Mr. TSOI Ka Shing

## CORPORATE GOVERNANCE REPORT

The Chairman of the Board is Mr. HUANG Qun and the CEO of the Company is Mr. PAN Haihong. The roles of the Chairman of the Board and the CEO of the Company are separated to ensure their respective independence, accountability and responsibility. The major duties of the Chairman are to provide leadership to the Board and spearhead overall corporate development and strategic planning whilst the CEO is responsible for implementing the decisions and strategy approved by the Board and managing day-to-day operations of the Group with the support of the Executive Directors.

The biographical details of each Director are set out in the section headed “Biographical Details of Directors, Supervisors and Senior Management” on pages 7 to 11 in the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company’s website.

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 21 November 2018. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months’ written notice to the other.

Each of the Non-executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as non-executive Directors for an initial term of three years with effect from 21 November 2018. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months’ written notice to the other.

Each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 1 August 2018 (Mr. JIN Hongqing and Mr. TSOI Ka Shing) and 9 November 2019 (Mr. XU Wei) which may be terminated by either party by giving not less than three months’ written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months’ written notice to the other.

There is no financial, business or other material/relevant relationships among the members of the Board.

The functions and duties of the Board include but are not limited to: convening Shareholders’ general meetings and reporting the Board’s work at the Shareholders’ general meetings; implementing the resolutions passed at the Shareholders’ general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association.

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

# CORPORATE GOVERNANCE REPORT

## Directors' Continuous Training and Professional Development

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

Training sessions have been provided to the Directors before the Listing to explain the on-going obligations and responsibilities as a director of a Hong Kong listed company. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices.

Name of Directors	Types of training	
	Attending in-house training organized by professional organizations	Reading materials updating on new rules and regulations
<b>Executive Directors:</b>		
Mr. PAN Haihong	✓	✓
Mr. ZHOU Guilin	✓	✓
<b>Non-executive Directors:</b>		
Mr. HUANG Qun	✓	✓
Mr. WANG Wenming	✓	✓
Mr. CHENG Jinyun	✓	✓
Mr. YE Yunzhi	✓	✓
<b>Independent Non-executive Directors:</b>		
Mr. XU Wei	✓	✓
Mr. JIN Hongqing	✓	✓
Mr. TSOI Ka Shing	✓	✓

# CORPORATE GOVERNANCE REPORT

## Independence of Independent Non-Executive Directors

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company.

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

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

## Board Committees and Supervisory Committee

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee, and Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference of the Audit Committee, Nomination Committee and the Remuneration Committee are respectively available on the websites of the Company and the Stock Exchange.

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

The Supervisory Committee consists of three Supervisors, comprising one representatives of employees (namely Mr. XIE Huihui) and two internal supervisors (namely Ms. XIE Yanli and Ms. YANG Mengjie). Ms. XIE Yanli is chairlady of the Supervisory Committee. Each term of office of a supervisor is three years and he/she may serve consecutive terms if re-elected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The Supervisory Committee may exercise its powers: (i) to review the Company's financial position; (ii) to supervise the Directors and senior management in their performance of their duties and to propose the removal of Directors and senior management who have violated any laws, regulations, the Articles of Association or Shareholders' resolutions; (iii) when the acts of a Director or senior management personnel are detrimental to the Company's interests, to require the director and senior management to correct these acts; (iv) to propose the convening of extraordinary Shareholders' general meetings and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meetings under the PRC Company Law; (v) to submit proposals to the Shareholders' general meetings; (vi) to bring actions against Directors and senior management pursuant to the relevant provisions of the PRC Company Law; and (vii) to exercise any other authority stipulated in the Articles of Association.

Supervisors may be present at Board meetings and make inquiries or proposals in respect of the resolutions of the Board.

# CORPORATE GOVERNANCE REPORT

## Audit Committee

The Company has established an audit committee (the “**Audit Committee**”) on 7 December 2020 with written terms of reference in compliance with Code C.3 of the Corporate Governance Code (which has been re-numbered as Code D.3 of the Corporate Governance Code since 1 January 2022) as set out in Appendix 14 to the Listing Rules. The primary duties of our Audit Committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the consolidated financial statements and material advice in respect of financial reporting, oversee the internal control and risk management systems of our Company.

At present, the Audit Committee comprises one non-executive Director, namely Mr. HUANG Qun, and two independent non-executive Directors, namely Mr. TSOI Ka Shing and Mr. XU Wei. Mr. TSOI Ka Shing is the chairman of the Audit Committee.

Pursuant to the meetings of the Audit Committee held on 24 March 2021 and 17 August 2021, the Audit Committee has reviewed, among other things, the consolidated financial statements of the Group for the year ended 31 December 2020 and the interim results for the six months ended 30 June 2021, including the accounting principles and practices adopted by the Company, report prepared by the external auditor covering major findings in the course of the audit, the risk management and internal control systems and their effectiveness, and the overall effectiveness of the Company’s internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditor. During the year ended 31 December 2021, the Audit Committee held 2 meetings.

## Remuneration Committee

The Company has established a remuneration committee (the “**Remuneration Committee**”) on 7 December 2020 with written terms of reference in compliance with Code B.1 of the Corporate Governance Code (which has been re-numbered as Code E.1 of the Corporate Governance Code since 1 January 2022) as set out in Appendix 14 to the Listing Rules. The primary functions of our Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors, Supervisors and senior management of the Group and review performance based remuneration.

At present, the Remuneration Committee comprises one executive Director, namely Mr. PAN Haihong, and two independent non-executive Directors namely Mr. TSOI Ka Shing and Mr. JIN Hongqing. Mr. JIN Hongqing is the chairman of the Remuneration Committee.

Pursuant to the meeting of the Remuneration Committee held on 24 March 2021, the Remuneration Committee has reviewed and determined, with delegated responsibility, the remuneration and compensation packages (including incentive plans) of the Directors, Supervisors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors, Supervisors and senior management and the performance of the Company. During the year ended 31 December 2021, the Remuneration Committee held 1 meeting.

# CORPORATE GOVERNANCE REPORT

## Remuneration of Directors, Supervisors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Supervisors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2021 are set out in note 9 to the consolidated financial statements and details of the remuneration of each of the Supervisors for the year ended 31 December 2021 are set out in page 28 in this report.

The remuneration of the senior management by band for the year ended 31 December 2021 is as follows:

<b>Remuneration bands (RMB)</b>	<b>Number of individuals</b>
0-1,000,000	4

## Nomination Committee

The Company has established a Nomination Committee on 7 December 2020 with written terms of reference in compliance with Code A.5 of the Corporate Governance Code (which has been re-numbered as Code B.3 of the Corporate Governance Code since 1 January 2022) as set out in Appendix 14 to the Listing Rules. The primary functions of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) and diversity of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of independent non-executive Directors; to identify individuals suitably qualified as potential Board members and to select or make recommendations to the Board regarding candidates to fill vacancies on our Board; and to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning of the Directors.

At present, the Nomination Committee comprises one non-executive Director, namely Mr. HUANG Qun, and two independent non-executive Directors namely Mr. XU Wei and Mr. JIN Hongqing. Mr. HUANG Qun is the chairman of the Nomination Committee.

Pursuant to the meeting of the Nomination Committee held on 24 March 2021, the Nomination Committee has reviewed the policy for the nomination of Directors, the structure, size and composition of the Board and assessed independence of the independent non-executive Directors. During the year ended 31 December 2021, the Nomination Committee held 1 meeting.

## NOMINATION POLICY

The Board has adopted a nomination policy on 1 January 2019 (the “**Nomination Policy**”) which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

### 1. Selection Criteria

- (a) The Nomination Committee is authorized by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer.
- (b) In assessing the suitability of a proposed candidate, the Nomination Committee may make reference to certain criteria such as the Company’s need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in trading centre operation industry and measuring and cutting tools industry and/or other professional areas, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.
- (c) Where necessary, the Nomination Committee should seek independent professional advice to access a wider range of potential candidates.
- (d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.
- (e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

# CORPORATE GOVERNANCE REPORT

## 2. Nomination Procedures

The secretary of the Nomination Committee shall invite nominations of candidates from Board members if any, for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members.

Any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting, and 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.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board may revoke or terminate any of the appointment of a managing director, joint managing director or deputy managing director in accordance with Article 103 of the articles of association of the Company.

A shareholder of the Company can serve a notice to the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a director. Details of the procedure has been set out in the "Procedure for Shareholders to Propose a Person for Election as a Director of the Company" posted on the website of the Company.

## 3. Review and Monitor of this Policy

- (a) The Nomination Committee shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.
- (b) The Nomination Committee shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.
- (c) The Nomination Committee shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

### 4. Board Diversity Policy

The Company has adopted a board diversity policy (the “**Board Diversity Policy**”) setting out the approach to achieve diversity on the Board. The Nomination Committee reviews and assesses the Board composition on behalf of the Board and recommends the appointment of new Directors, taking into account a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board may consider relevant and applicable from time to time. While the Board recognises that gender diversity at the Board can be improved, given its current composition of single gender Directors, the principle of Director’s appointments will be based on meritocracy, and candidates will be considered against objective criteria, taking into account factors based on the own business model and special needs from time to time, and with due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

The Company values gender diversity and will continue to take steps to promote gender diversity at all levels of the Company, including but without limitation at the Board and senior management. In recognising the importance of gender diversity, the Company is committed to providing career development opportunities for female staff and to engaging more resources in training the female staff with an aim to promoting them to the position of senior management or Director. The Company will also continue to recruit female talents based on the recruitment policy and with reference to the Board Diversity Policy as a whole.

To ensure gender diversity of the Board, the Nomination Committee will continue and from time to time identify suitable candidates of both genders to the Board to be appointed as Directors. To allow the Shareholders to be able to judge whether board diversity is achieved, we will provide the Shareholders with detailed information of each candidate for appointment or re-election to the Board through announcements and circulars published prior to general meetings of the Company.

The Nomination Committee will review the Board Diversity Policy, assess its effectiveness and, where necessary, make any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee considered that an appropriate balance of diversity perspective of the Board is maintained during the year ended 31 December 2021. Based on the review by the Nomination Committee, the Board considered that the Company has achieved the measurable objectives set for implementing the board diversity policy for the year ended 31 December 2021. The Company will appoint at least a director of a different gender on the board no later than 31 December 2024.

#### 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, etc, as recommended by the Audit Committee from time to time. This corporate governance report has been reviewed by the Board in discharge of its corporate governance functions in compliance with the Code Provision D.3 of the Corporate Governance Code (which has been re-numbered as code provision A.2 of the Corporate Governance Code since 1 January 2022).

# CORPORATE GOVERNANCE REPORT

## Attendance Record of Directors

The attendance record of each of the current Directors at the Board meetings, committees meetings and the general meetings of the Company held during the year ended 31 December 2021 is set out in the table below. The Directors did not authorise any alternate Director to attend Board or Board Committee meetings.

Name of Directors	Attendance/Number of Meetings				General Meeting
	Audit Committee	Remuneration Committee	Nomination Committee	Board	
Mr. PAN Haihong	–	1/1	–	5/5	1/1
Mr. ZHOU Guilin	–	–	–	5/5	1/1
Mr. HUANG Qun	2/2	–	1/1	5/5	1/1
Mr. WANG Wenming	–	–	–	5/5	1/1
Mr. CHENG Jinyun	–	–	–	5/5	1/1
Mr. YE Yunzhi	–	–	–	5/5	1/1
Mr. XU Wei	2/2	–	1/1	5/5	1/1
Mr. JIN Hongqing	–	1/1	1/1	5/5	1/1
Mr. TSOI Ka Shing	2/2	1/1	–	5/5	1/1

## Board Meetings

Meetings of the Board shall be held regularly at least four times each year and shall be convened by the chairman of the Board. If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization. Directors attending Board meetings on behalf of other directors shall exercise their power as directors within their scope of authorization. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his rights to vote at that meeting. Each Director shall have one vote. Questions arising at any meetings of the Board of Directors shall be determined by a majority of votes. Where the numbers of votes cast for and against a resolution are equal, the chairman shall have the right to cast an additional vote.

During the year ended 31 December 2021, there were 5 Board meetings held and all Directors attended the meetings that they were required to attend.

# CORPORATE GOVERNANCE REPORT

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct regarding Directors’ and Supervisors’ securities transactions. Upon specific enquiries, all Directors and Supervisors confirmed that they have complied with the relevant provisions of the Model Code for the year ended 31 December 2021 and up to the date of this report.

## JOINT COMPANY SECRETARIES

The Directors have access to the services of the joint company secretaries to ensure that the Board procedures and followed.

As at the date of this report, the joint company secretaries of the Company are Mr. Xu Yi (“**Mr. Xu**”) and Ms. Chan Tsz Yu (“**Ms. Chan**”).

Mr. Xu joined the Company and acts as a person-in-charge in office from September 2016 to April 2018, and has been appointed as a personnel of information disclosure of our Company since April 2018 and the joint company secretary of the Company since August 2018. For more details of Mr. Xu, please see the section headed “Biographical Details of the Directors, Supervisors and Senior Management”.

Ms. Chan has been appointed as the joint company secretary of the Company since February 2021. Ms. Chan is an associate member of both the Hong Kong Chartered Governance Institute (formerly known as Hong Kong Institute of Chartered Secretaries) and the Chartered Governance Institute in the United Kingdom. Ms. Chan has the necessary qualifications and experience as required under Rule 3.28 and 8.17 of the Listing Rules. The main contact person of Ms. Chan in the Company is Mr. Xu.

In compliance with Rule 3.29 of the Listing Rules, Mr. Xu and Ms. Chan have undertaken no less than 15 hours of relevant professional training for the year ended 31 December 2021.

## FINANCIAL REPORTING AND INTERNAL CONTROL

### Financial Reporting

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

# CORPORATE GOVERNANCE REPORT

## Internal Controls and Risk Management

The Board acknowledges its responsibility for the risk-management and internal control system and reviewing their effectiveness.

The Board has put in place a set of internal control and risk management protocols to address various operational, financial, legal and market risks identified in relation to our operations, including but not limited to procurement and sales management, inventory management, research and development management, credit risk, liquidity risk, foreign exchange risk, human resources risk management, and various other financial and operational control and monitoring procedures. The risk management protocols and policies set forth procedures to identify, categorize, analyze and mitigate various risks and the relevant reporting hierarchy of risks identified in our operations. The Board of Directors has the general power to manage our operations and is responsible for the risk management and internal control systems and reviewing their effectiveness. After due consideration, our Directors are of the view that our current risk management and internal control systems are adequate and effective.

The management of the Company has established a set of comprehensive structure, standards and procedures in areas of operational, financial, legal and market risks for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and a sound cash management system; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. The Board reviews the risk management and internal controls annually.

Also, the Company has an internal audit function to carry out the analysis and independent appraisal of the effectiveness of the Group's risk management, internal control systems and perform an internal audit procedure which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2021. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the effectiveness and adequacy of the risk management and internal control systems and the internal audit function for the year ended 31 December 2021.

The Company has developed a policy for handling and dissemination of inside information. The policy provides a general guide to the Company's Directors, officers and relevant employees in handling confidential information and monitoring information disclosure.

## External Auditor's Remuneration

KPMG has been appointed as the external auditor of the Company, the Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2021, the fees payable to KPMG in respect of its annual audit services provided to the Company was RMB1 million. Except for audit service fee, there is no other payable to KPMG.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

The Directors acknowledge their responsibility for preparing the accounts of the Group.

The responsibilities of KPMG, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

# CORPORATE GOVERNANCE REPORT

## Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

## Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings

Extraordinary general meetings may be convened by Directors on 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 carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary of the Company by mail to 40/F, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

## Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders and investors of the Company may send written enquiries to the Company by mail to 40/F, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong or email enquiry to [enquiry@wenlingworking.com](mailto:enquiry@wenlingworking.com).

## Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a shareholders communication policy with a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at <http://cnglj.com> and the Stock Exchange. The Board has reviewed the shareholder communication policy and confirmed its effectiveness.

## Constitutional Documents

The current Articles of Association were approved and adopted with effect from the AGM held on 20 May 2021. As at the date of this report, no change has been made to the Articles of Association after the AGM held on 20 May 2021.

The Articles of Association is available on the websites of the Stock Exchange and the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This is the Environmental, Social and Governance (“**ESG**”) Report (the “**ESG Report**”) of the Group for the year ended 31 December 2021, which outlines the principles and sustainably philosophy of the Group in fulfilling its corporate social responsibility (“**CSR**”) and illustrates the relationship between the Group and its major stakeholders with a vision and commitments for its CSR.

The Board has overall responsibility for the Group’s ESG strategy and reporting. The Board is responsible for evaluating and determining the Group’s ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management will regularly report the relevant state to the Board.

In order to determine what issues are relevant and material to our business with respect to sustainability, the Group is aware that the key is to understand what issues that the stakeholders concerned most. Therefore, the Group defines the stakeholders as people who affect our business or who are affected by our business. In the daily business, the Group actively exchange information with the stakeholders through the transparent platform while the Group is devoted to continuous improvement of the communication system. In addition, the Group is committed to maintaining a long-term partnership with the stakeholders and are actively engaged in addressing their concerns with timely follow-up actions. The Group is dedicated to create a sustainable growth for the benefits of all our stakeholders.

During the year ended 31 December 2021 (the “**Reporting Period**”), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The ESG report provides details of the Company’s policies and practices in two aspects namely environmental and social for the Reporting Period.

## ESG MANAGEMENT APPROACH

The Group integrates ESG elements in our businesses as we move towards a sustainable future. The Group continues to strengthen the ESG governance to facilitate effective management across our business portfolios. The Group is establishing a designated ESG working group for formulating ESG strategies, monitoring ESG performance and optimizing ESG disclosure.

## SCOPE OF THE ESG REPORT

This report covered the overall environmental and social performance of the two subsidiaries of the Group, namely Wenling Measuring and Cutting Tools Network Co., Ltd.\* (溫嶺工量刃具網有限公司) and Wenling Sunrise Real Estate Development Co., Ltd.\* (溫嶺市旭日投資有限公司), further details of which are set out in note 17 to the consolidated financial statements during the year ended 31 December 2021. The Group will constantly update its recent business status and consider further expansion of the reporting scope in the future to ensure a more complete overview and presentation of the Group’s ESG performance.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## REPORTING PRINCIPLES

**Materiality:** The Group ensures that ESG issues discussed in this Report are sufficiently important and material to investors and stakeholders including but not limited to shareholders, governments, employees, clients, suppliers and communities (the “**Stakeholders**”). The Board and the management are mainly responsible for identification of key ESG factors on the basis of the feedback from the Stakeholders.

**Quantitative:** The Group regularly collects key performance indicators (“**KPI**”) required by the ESG Reporting guide and follows up on the Group’s performance in relevant aspects to optimize and improve the disclosure of KPIs. Where applicable, the Group compares data for each year and discusses relevant trends and impacts.

**Consistency:** Methodologies and key performance indicators are used and calculated in a consistent approach. If there are any changes in consistency that may affect a meaningful comparison details would be disclosed.

## REPORTING FRAMEWORK

The Group has prepared the ESG report pursuant to the Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) set out in Appendix 27 to the Listing Rules. The ESG Report adhere to the reporting principles of the ESG Reporting Guide, and complies with the “Comply or Explain” provisions therein.

## ACCESS OF THE ESG REPORT

The ESG report is released in both printed and online versions. The online version is available on the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website (<http://cnglj.com>).

This report has both English and Chinese versions. Should there be any discrepancies between the two versions, the English version shall prevail.

## CONTACT INFORMATION

We highly appreciate and welcome your feedback and comment on the ESG Report so that we may meet the stakeholder’s interests and for our sustainability initiatives. For any enquires or recommendations, please send the written enquiries to us at 40/F, Dah Sing Financial Centre, No. 248 Queen’s Road East, Wanchai, Hong Kong.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER ENGAGEMENT

Communication with stakeholders is very important to the Group. The Group has identified the key stakeholders, including shareholders, government and regulatory authorities, employees, business partners, the public and the community.

Major stakeholders	Channels of Engagement or Communication	Expectations
Shareholders	<ul style="list-style-type: none"> <li>• Annual general meeting and other shareholder meetings</li> <li>• Annual report and interim report</li> <li>• Announcements and circulars</li> <li>• Company's website</li> <li>• Meeting with investors</li> </ul>	<ul style="list-style-type: none"> <li>• Return on investment</li> <li>• Information disclosure and transparency</li> <li>• Protection of shareholders' rights and fair treatment of shareholders</li> </ul>
Government and regulatory authorities	<ul style="list-style-type: none"> <li>• Policy guidance</li> <li>• Response to public consultation in writing</li> <li>• Meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with laws and regulations</li> <li>• Implementation of relevant regulatory policies, such as production safety, environmental protection and social responsibility</li> <li>• Proper tax payment</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Regular meetings and training</li> <li>• Performance assessment</li> <li>• Staff newsletters and broadcasts</li> <li>• Labour union</li> </ul>	<ul style="list-style-type: none"> <li>• Salary and welfare</li> <li>• Safe working environment</li> <li>• Fair career development opportunities</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Regular meetings</li> <li>• Site visit</li> <li>• Exhibition</li> <li>• Email</li> </ul>	<ul style="list-style-type: none"> <li>• High quality products and services</li> <li>• Group reputation and brand image</li> </ul>
Business partners	<ul style="list-style-type: none"> <li>• Business partner meetings</li> <li>• Site visit</li> <li>• Email</li> <li>• Tendering process</li> <li>• Purchase review</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term partnership</li> <li>• Win-win cooperation</li> <li>• Fair purchase</li> <li>• Timely payment</li> </ul>
The public and the community	<ul style="list-style-type: none"> <li>• Site visit</li> <li>• Email</li> <li>• public newsletters and broadcasts</li> </ul>	<ul style="list-style-type: none"> <li>• Volunteering</li> <li>• Community visit</li> <li>• Donation</li> </ul>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ENVIRONMENTAL

The Company is subject to environmental laws and regulations in the PRC where our businesses operate.

The Company considers the protection of the environment to be important and fully committed to complying with all applicable requirements under the PRC environmental laws and regulations. The Company confirmed that we are in compliance with the relevant environmental protection laws and regulations during the Reporting Period. If the Company fails to comply with present or future laws and regulations, the Company would be subject to fines, suspension of business or cessation of operations.

As mentioned above, the Group generally bear a low impact on emission except electricity consumption which is our major source of greenhouse gas (“GHG”) emission and energy footprint. Despite that, the Group has strived to achieve environmental sustainability and has formulated relevant rules and regulations for a sound and effective management of energy consumption, emission, and use of resources as well as discharge of domestic waste and sewage and other pollutants, as highlighted below:

- comply with applicable environmental protection laws and regulations;
- define appropriate goals, objectives and targets on a regular basis for our ESG management approach;
- improve continuously the ESG management system and maintain rigorous standards;
- promote environmental awareness among the workforce with regular communication; and
- communicate our environmental performance to stakeholders and seek their involvement wherever applicable.

During the year ended 31 December 2021, the Group complied with applicable environmental protection laws and regulations in relation to air and GHG emissions, discharge into water and land, and generation of hazardous and non-hazardous waste. The Group did not violate any environmental protection laws or regulations of the region where we operate, nor was it subject to significant fines, non-monetary penalties and litigation relating to environmental protection.

### Energy Conservation and Emission Reduction

Reducing energy consumption and improving energy efficiency are keys to slowing down global climate change, and therefore the Group strives to improve its energy saving performance on operation.

### Wastes Control

As the Group conducts property leasing, there is no significant hazardous waste produced during the ordinary course of business operations. On the other hand, the major non-hazardous waste produced results from the paper consumption for administrative work, which we consider to be minimal as we encourage the employees to go paperless. Therefore, no data regarding hazardous and non-hazardous waste were recorded during the year ended 31 December 2020 and 2021.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Greenhouse Gas Emissions

During the course of the Group's operations, GHG emissions are generated from the usage of electricity consumption. The following table set forth the summary of GHG emissions performance of the Group during the year ended 31 December 2021.

	<b>Total emissions (tCO<sub>2</sub>e)</b>	<b>Intensity (Note 2) (tCO<sub>2</sub>e/employee)</b>
Indirect GHG emissions Electricity consumption	1,259.0	45.0

Notes:

1. Combined margin emission factor of 0.792 tCO<sub>2</sub>eq./MWh was used for electricity consumed the PRC; and
2. As at 31 December 2021, the Group had 28 employees in total. The data is also used for calculating other intensity data.

## Power Consumption Control

The main power consumed by the Group is electricity. The Group adheres to the principle of energy conservation and environmental protection to reduce the power consumption. The Group uses of energy-efficient lighting and has formulated a guideline on the use of air conditioners.

## Water Consumption Control

The Group treasures water resources and is committed to controlling water consumption and avoiding wastage, in order to encourage staff to save water, the Group has put up signs in offices to remind employees to reduce water consumption. The Group has no issue in sourcing water that is fit for purpose.

## Environmental performance

For our general daily operation, the environmental performance of "Use of Resources" during the reporting period are shown as below.

	<b>Unit</b>	<b>Total</b>	<b>Intensity (per employee)</b>
Electricity	MWH	1,259.0	45.0
Water	ton	30,778	1,099.2

## Packaging Materials

Due to the nature of the business of Group, the Group does not produce final products. Therefore, the Group does not consume packaging materials.

The Group will continue to closely monitor the utilisation of resources and conduct regular assessment to seek better ways for contributing to environmental protection.

## Economical Use of Resources

The Group strictly complies with the requirements of Energy Conservation Law of the PRC and has formulated rules in relation to fostering awareness of water and electricity conservation among all staff and turning off lights, faucets, air conditioners and computers, etc. when the use of them is unnecessary to reduce the consumption of energy.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## The Environment and Natural Resources

Due to the nature of the business, its daily operation posed no significant adverse impact on the environment.

The Group believes that corporation has responsibility, which is imperative, in promoting the sustainable development of environment. In this connection, the Group formulated environmental principles correspondingly to ensure the effective implementation of various measures. In production and operation activities, increased use of energy-saving facilities and reduced energy consumption to mitigate or avoid the impact of wasted water, exhaust gas, greenhouse gas, noise and hazardous and non-hazardous waste on the environment; encouraged the staffs to raise environment protection awareness and to acquire knowledge and skills related to environment protection. The Group strictly complied with national laws, regulations and policies, such as Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution and Hazardous Waste Pollution Prevention Technology Policy. There were no cases of non-compliance in relation to emissions and the environment within the reporting scope during the year ended 31 December 2020 and 2021. Looking ahead, we will continuously assess its environment risks so as to formulate appropriate response measures and regularly review.

## Climate Change

Climate change is among the most pressing global challenges of our time. Acute physical risk can arise from extreme weather conditions such as flooding and storms and chronic physical risk can arise from sustained high temperature, while transition risk may result from the change in environmental-related regulations.

To minimize life, property and financial losses, precautionary measures on flexible working arrangement have been taken by the Group under different extreme weather scenarios of extreme heat and flooding.

Though climate change and aforesaid extreme weather conditions do not directly impose significant threat to the Group's business operations, the effects of global climate change harm the wellbeing and stability of countries and people on earth. However, we will continue to monitor the climate-related risks and implement relevant measures to minimize the potential impact of climate change.

## Environmental Targets

The Company considers that it has reached an optimal point in relation to emission control and resources use.

The Company target to maintain emission control and use of resource by intensity or by employee, in next five years. Upon new systems and another optimal point are seen to be achievable, the Company will set a reduction target and disclose such goal from time to time.

## SOCIAL

### Employees

The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, has a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and the management are reasonable and competitive in the market and the Group believes that its long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of the employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, the Group provides regular training to our employees. Besides these, the Group has formulated detailed regulations in its employee manual with respect to compensation, dismissal, promotion, working hours, vacations and other aspects.

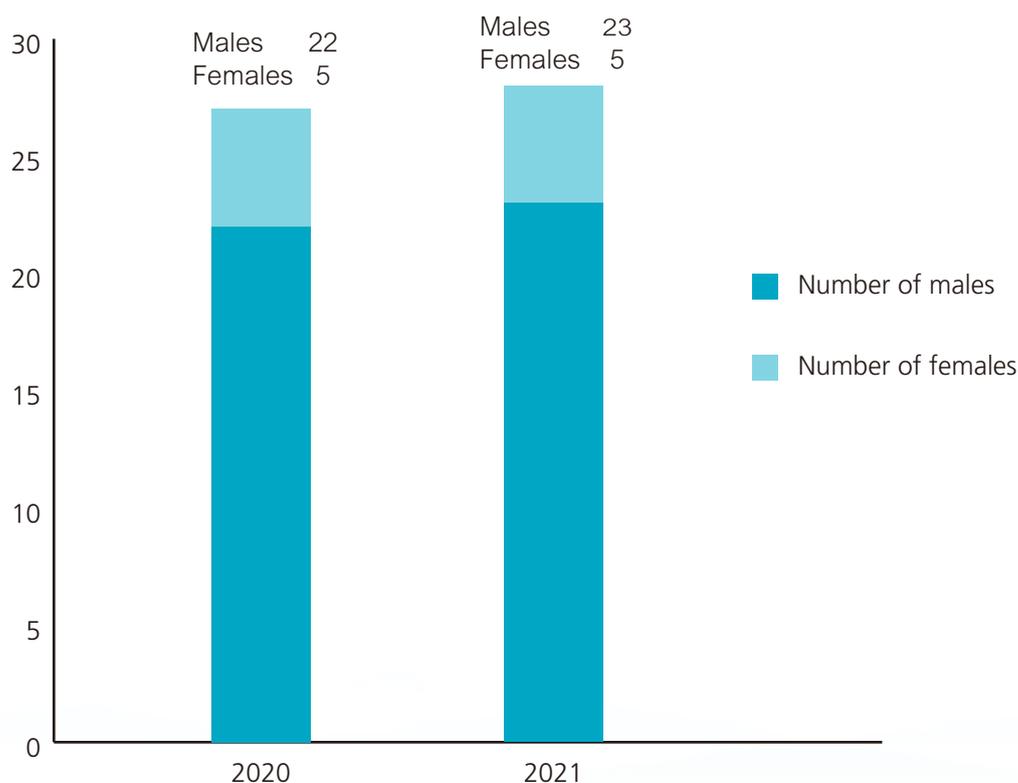
## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group mainly recruits employees through recruitment fairs and on-campus recruitment. As at 31 December 2021, we had a total of 28 employees, all of whom were based in the headquarters in the PRC. The following table sets forth the number and breakdown of our full-time employees by function as at 31 December 2021:

Function	Number of employees
Senior management	5
Human resources and internal audit	4
Finance	3
Information management	3
Retail and tenancy management	13
<b>Total</b>	<b>28</b>

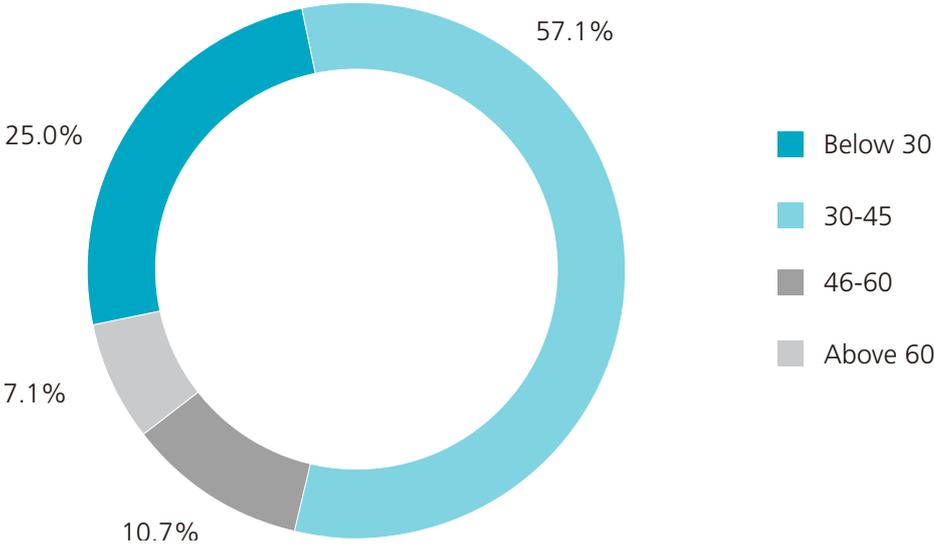
### Employment statistics by gender, age and education level

Distribution of employees by gender

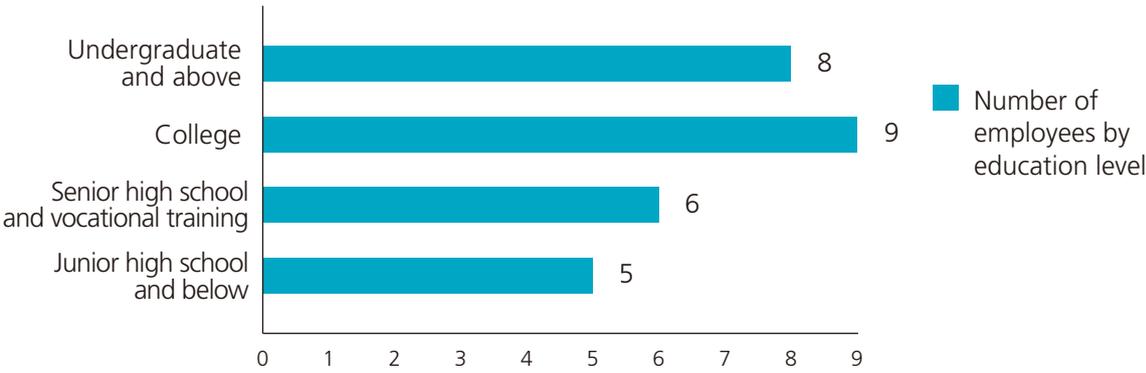


# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Distribution of employees by age



### Distribution of employees by education level

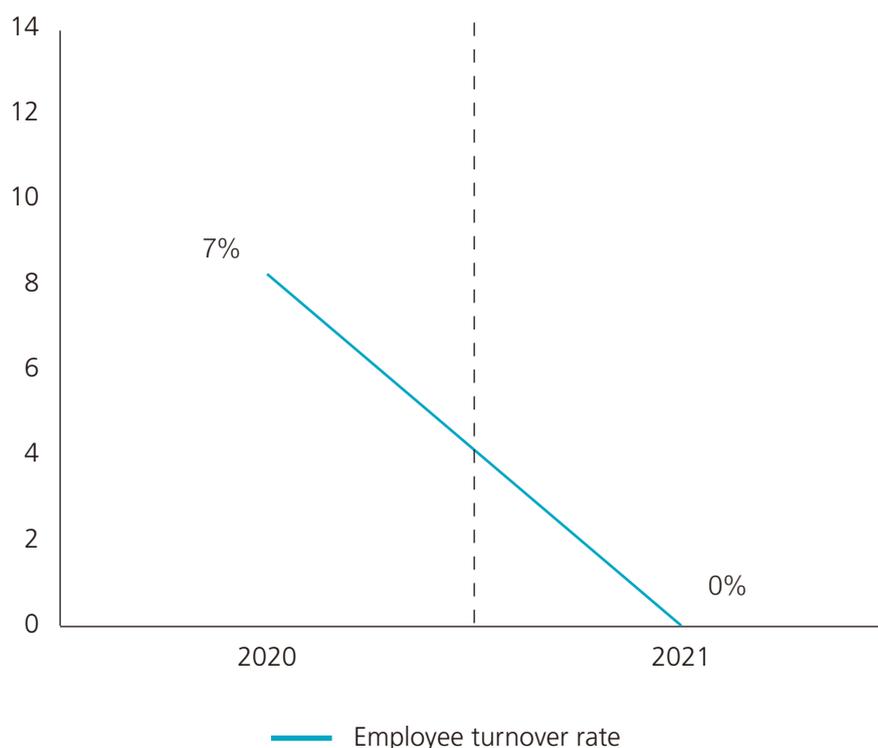


# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Benefits

The remuneration of our employees includes basic salary and performance-based monthly and annual bonuses. The Group makes contributions for our employees in relation to the mandatory social security funds, including pension, work-related injury insurance, maternity insurance, medical and unemployment insurance in accordance with applicable laws and regulations of the PRC. During the Reporting Period, the Group failed to make full contributions to the social insurance scheme for some of our employees. The Group also failed to register our housing provident fund account and did not make full contributions to the housing provident fund for some of our employees as required by PRC laws and regulations.

### Employee turnover rate



For the year ended 31 December 2021, no employee resigned or retired for the year ended 31 December 2021.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## OCCUPATIONAL HEALTH AND SAFETY

### Safety Management System

The Group is subject to various production safety rules and regulations in the PRC.

Our operations are subject to regulation and monitoring by local work safety authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

We have established work safety policies and procedures to ensure that our operations are in compliance with applicable work safety laws and regulations. Our work safety policies set forth overall principles as well as procedures of internal inspections of work safety-related matters. In order to address potential safety risks and ensure timely and efficient responses to safety incidents, our work safety policies also provide a detailed system of recording and handling accidents, where (i) safety incidents are categorised into three grades, each necessitating a corresponding level of emergency responses; and (ii) in addition to internal real-time and post-accident records and analyses, timely reports would be made to local work safety authorities and any other relevant authorities. We also provide work safety-related training to our employees with a view to arousing their awareness of occupational safety and equipping them with the requisite knowledge and skills to handle emergency situations. During the Reporting Period, we had complied with the applicable work safety-related regulations of the PRC in all material aspects.

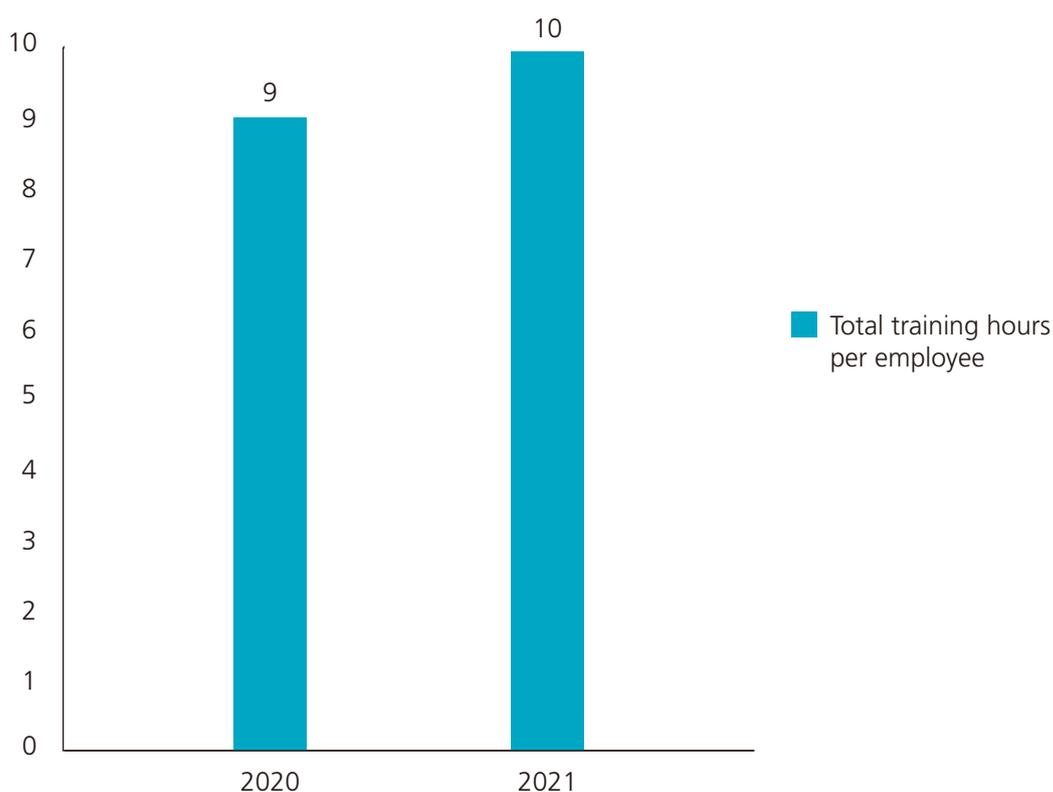
During the year, we did not have any work-related fatalities or injuries and there had not been any claims for personal or property damages or related compensation paid to our employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Training

The Group believes our success depends on our employees' provision of consistent, high-quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, the Group places a strong emphasis on training our employees. Prior to commencement of work, new employees must attend mandatory pre-employment training sessions. In addition, the Group also invited professional trainers from third-party research institutions to provide all employees regular training on professional knowledge, technical skills and production safety.

Total training hours per employee



All employees and senior management have attended the same training courses during the years ended 31 December 2020 and 2021.

## Fair recruitment and promotion

The Group recruits staff based on a fair, open and impartial principle to ensure the recruitment, selection and promotion process is objective and consistent. The Group only takes into account an individual's competence, regardless of the age (apart from the policy of no recruitment of minors under the age of 16), nationality, race, gender, religion, pregnancy or disability. This process avoids any employment discrimination and offers equal employment and promotion opportunities to all candidates.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Employment

The Group stringently complies with all national and local laws, such as the Labor Law, Labor Contract Law and Employment Promotion Law of the People's Republic of China. The Group legally abides by labour laws and regulations. The employment of child labour and forced-labour workers are strictly prohibited.

## Labour Standards

Being fully aware that exploitation of child and forced labour violates human rights and international labour conventions, the Group strictly prohibits the employment of any child labour and forced labour in any form. New employees are required to provide true and accurate personal data when they are onboard. During the year ended 31 December 2021, the Group strictly complied with the relevant laws and regulations, in relation to the prevention of child labour or forced labour. No material non-compliance with the laws and regulations has been found by the Group.

## RELATIONSHIPS WITH EMPLOYEES AND CUSTOMERS

Believing that sense of belonging is the key for the healthy growth of every commercial organisation, the Group promotes open and direct communication between employees and management. And organise regular group activities, are organised to enhance the harmonious spirit of different levels of staff members throughout the Group. The Group believes that such a corporate culture and harmonic working environment will naturally achieve a synergistic result to facilitate employee retention and to improve productivity.

The Group's customers were our tenants, who are manufacturers, suppliers, distributors as well as wholesalers of measuring and cutting tools. The Group has established stable relationship with the tenants. The tenant whom we have the longest relationship with has leased our properties for over 5 year.

## SUPPLY CHAIN MANAGEMENT

Due to the nature of the business, the Group does not have any supplier. However, in order to enhance the competitiveness of the trading centre and provide value added services to the tenants, the Group have engaged a property management service company, an independent third party, to provide ongoing property management service to the tenants. The Responsibility of the property management service provider – providing, among others, security service, cleaning service, water and electricity repair and maintenance service to the tenants.

In order to control the quality and performance of the subcontractors, the selection basis is based on the following criteria: previous experience and past performance, reliability and responsiveness, financial status, any relationship with staff, if applicable, disclosed, fee/price of service/product and credit terms.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## QUALITY CONTROL AND MANAGEMENT

The Group believes that its management team has accumulated the extensive experience in a broad range of functions comprising site management, cost control and quality control as well as efficient execution capability. Due to the nature of business, the Group does not have health and safety, advertising and labelling matters relating to its products and services provided.

### Data Protection and Privacy Policies

All employees are prohibited from disclosing any confidential information under the Group's confidentiality policy. Data including project-related information and other sensitive information such as information of tenants (other than publicly available information) is subject to access control to ensure its security and prevent any abuse or misuse.

### Intellectual Property

As at 31 December 2021, the Group had registered three trademarks in the PRC, one trademark in Hong Kong and two domain names.

### Bribery, Corruption and Other Misconduct

The Group's employee handbook regulates the employees' conducts with respect to conflicts of interest, bribery, corruption and other misconduct. The Group provides regular training for our employees to emphasize the importance of employees' conduct and refresh their knowledge on the reporting system on employees' misconduct. An effective whistle blowing policy is (including but not limited to report to department managers, the human resources manager and the senior management) also in place to minimize the risk of fraudulent acts, criminal offences or wrongdoings occurring in the workplace. To the best knowledge of the Directors, during the Reporting Period, there was no non-compliance involving bribery and corruption related laws and regulations.

## COMMUNITY INVOLVEMENT/CHARITABLE DONATIONS

The Group is committed to fulfilling its CSR and continues to dedicate its resources to charitable activities. During the 2021, the Group has played a part in winning the battle of prevention and control against the epidemic with practical action by making a donation of approximately RMB38,000 to fulfill its CSR.

\* For identification purpose only

# INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited**  
(Incorporated in the People's Republic of China with limited liability)

## OPINION

We have audited the consolidated financial statements of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 71 to 130, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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**"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

### Valuation of investment properties

Refer to Note 12 to the consolidated financial statements and the accounting policies on page 79.

#### The Key Audit Matter

The Group's investment properties are located in Wenling City, Zhejiang Province. The fair value of the Group's investment properties as at 31 December 2021 was RMB1,015 million, which represented 82% of the Group's total assets as at that date.

The fair value of the Group's investment properties as at 31 December 2021 was assessed by the board of directors based on valuations prepared by an external firm of qualified valuers (the "Valuer"). The valuation gains on investment properties recorded in the consolidated statement of profit or loss and other comprehensive income were RMB19.9 million for the year ended 31 December 2021.

We identified assessing the valuation of investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and because the valuation of investment properties can be inherently subjective and requires the exercise of significant judgement and estimation, in particular in determining the appropriate valuation methodology, capitalisation and discount rates, market rents and adjusted quoted prices in active markets and the estimation of development costs to complete the investment property under development, which increases the risk of error or management bias.

#### How the matter was addressed in our audit

Our audit procedures to assess the valuation of investment properties included the following:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of the key internal controls in relation to the valuation of investment properties and the preparation and monitoring of management budgets and forecasts of construction and other costs for the property development project;
- obtaining and inspecting the valuation reports prepared by the Valuer engaged by the Group on which the directors' assessment of the fair values of investment properties was based;
- assessing the qualifications of the Valuer and their experience and expertise in the properties being valued and considering their objectivity;

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

### Valuation of investment properties

Refer to Note 12 to the consolidated financial statements and the accounting policies on page 79.

#### The Key Audit Matter

#### How the matter was addressed in our audit

- with the assistance of our internal property valuation specialists, discussing with management and the Valuer and assessing the valuation methodology and challenging the key estimates and assumptions adopted in the valuations, including the capitalisation and discount rates, market rents, adjusted quoted market prices, on a sample basis, by comparing assumptions made in prior years with the current year's assumptions and publicly available data;
- for completed investment property, comparing tenancy information, including committed rents provided by the Group to the Valuer, on a sample basis, with underlying contracts and documentation relating to details of the number of property units held for investment purposes, to assess the accuracy of the inputs to the valuation model; and
- for investment property under development, conducting site visit to observe the development progress, reviewing the third party's construction progress report and evaluating management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs and signed construction contracts.

## **INDEPENDENT AUDITOR'S REPORT**

### **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 THE 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 are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

# INDEPENDENT AUDITOR'S REPORT

## 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism 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.

## INDEPENDENT AUDITOR'S REPORT

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

- 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

The engagement partner on the audit resulting in this independent auditor's report is Yue Tat Wai.

#### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

30 March 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Note</i>	2021 RMB'000	2020 RMB'000
<b>Revenue</b>	5	<b>57,205</b>	46,743
Cost of services		<b>(9,938)</b>	(9,118)
<b>Gross profit</b>		<b>47,267</b>	37,625
Valuation gains on investment properties	12	<b>19,905</b>	3,207
Other net income	6	<b>8,480</b>	4,883
Selling and marketing expenses		<b>(641)</b>	(113)
Administrative expenses		<b>(10,477)</b>	(8,158)
<b>Profit from operations</b>		<b>64,534</b>	37,444
Finance costs	7(a)	<b>(736)</b>	–
<b>Profit before taxation</b>	7	<b>63,798</b>	37,444
Income tax	8	<b>(16,481)</b>	(9,363)
<b>Profit for the year</b>		<b>47,317</b>	28,081
<b>Other comprehensive income for the year</b>		–	–
<b>Total comprehensive income for the year</b>		<b>47,317</b>	28,081
<b>Earnings per share</b>	11		
Basic and diluted (RMB)		<b>0.59</b>	0.47

The notes on pages 76 to 130 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 27(b).

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2021

	<i>Note</i>	2021 RMB'000	2020 RMB'000
<b>Non-current assets</b>			
Investment properties	12	1,014,600	1,027,340
Property, plant and equipment	13	6,676	7,483
Lease prepayments	14	559	581
Intangible assets	15	–	72
Other non-current assets	16	3,392	3,674
		<b>1,025,227</b>	1,039,150
<b>Current assets</b>			
Properties under development for sale	18	121,747	–
Other receivables and prepayments	19	10,163	7,344
Land appreciation tax and income tax prepaid	20	2,970	–
Restricted cash		270	2,624
Cash and cash equivalents	21	78,734	85,389
		<b>213,884</b>	95,357
<b>Current liabilities</b>			
Short-term loans	22	15,000	40,462
Other payables and accruals	23	53,594	26,292
Contract liabilities	24	95,786	–
Receipts-in-advance, current	25	50,999	53,114
Current taxation	26(a)	9,677	10,158
		<b>225,056</b>	130,026
<b>Net current liabilities</b>		<b>(11,172)</b>	(34,669)
<b>Total assets less current liabilities</b>		<b>1,014,055</b>	1,004,481

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
<b>Non-current liabilities</b>			
Long-term loan	22	–	40,000
Receipts-in-advance, non-current	25	73,757	78,349
Deferred tax liabilities	26(b)	178,278	171,429
		<b>252,035</b>	289,778
<b>NET ASSETS</b>			
		<b>762,020</b>	714,703
<b>CAPITAL AND RESERVES</b>			
Share capital	27(c)	80,000	80,000
Reserves	27(d)	682,020	634,703
<b>TOTAL EQUITY</b>			
		<b>762,020</b>	714,703

Approved and authorised for issue by the Board of Directors on 30 March 2022.

**Pan Haihong**  
Director

**Zhou Guilin**  
Director

The notes on pages 76 to 130 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Note	Share capital RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
<b>Balance at 1 January 2020</b>		60,000	35,507	3,889	538,168	637,564
Profit for the year		-	-	-	28,081	28,081
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	28,081	28,081
Issue of ordinary shares upon initial public offering, net of issuing costs	27(c)	20,000	32,058	-	-	52,058
Appropriation for PRC statutory reserve	27(d)(ii)	-	-	1,839	(1,839)	-
Dividends declared in respect of the previous year	27(b)	-	-	-	(3,000)	(3,000)
<b>Balance at 31 December 2020 and 1 January 2021</b>		<b>80,000</b>	<b>67,565</b>	<b>5,728</b>	<b>561,410</b>	<b>714,703</b>
Profit for the year		-	-	-	47,317	47,317
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income		-	-	-	47,317	47,317
Appropriation for PRC statutory reserve	27(d)(ii)	-	-	2,677	(2,677)	-
<b>Balance at 31 December 2021</b>		<b>80,000</b>	<b>67,565</b>	<b>8,405</b>	<b>606,050</b>	<b>762,020</b>

The notes on pages 76 to 130 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
<b>Operating activities:</b>			
Cash generated from operations	21(b)	126,377	33,221
PRC Corporate Income Tax ("CIT") paid	26(a)	(11,884)	(2,283)
PRC Land Appreciation Tax ("LAT") paid	20	(1,199)	–
<b>Net cash generated from operating activities</b>		<b>113,294</b>	30,938
<b>Investing activities:</b>			
Payment for the purchase of property, plant and equipment		(27)	(20)
Receipt of performance bond deposit		–	6,350
Payment for increase in investment properties		(49,041)	(76,420)
Placement of restricted cash for the construction of investment properties		(20,074)	(12,000)
Release of restricted cash for the construction of investment properties		22,624	9,376
Interest received		415	66
<b>Net cash used in investing activities</b>		<b>(46,103)</b>	(72,648)
<b>Financing activities:</b>			
Proceeds from borrowings	21(c)	125,000	180,462
Repayment of bank loans	21(c)	(190,462)	(157,020)
Payment of loan interests	21(c)	(5,218)	(5,633)
Payment of dividends		–	(3,000)
Proceeds from initial public offering less underwriting commission fee		–	89,441
Payment of listing expenses		(3,166)	(12,522)
<b>Net cash (used in)/generated from financing activities</b>		<b>(73,846)</b>	91,728
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,655)</b>	50,018
<b>Cash and cash equivalents at the beginning of the year</b>		<b>85,389</b>	35,371
<b>Cash and cash equivalents at the end of the year</b>	21(a)	<b>78,734</b>	85,389

The notes on pages 76 to 130 form part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 1 GENERAL INFORMATION

The Company was formerly named as Wenling City Wenxi Measuring and Cutting Tools Trading Centre Company Limited. (溫嶺市溫西工量刀具交易中心有限公司, the “**Company**”), which was established as a limited liability company incorporated in Wenling City, Zhejiang Province in the People’s Republic of China (the “**PRC**”) on 14 May 2003. The principal activity of the Company and its subsidiaries (together, the “**Group**”) is property leasing.

On 3 May 2018, the Company was converted into a joint stock limited liability company with a registered capital of RMB60,000,000 in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited. Upon completion of this conversion, the Company changed its name to Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (溫嶺浙江工量刀具交易中心股份有限公司).

On 30 December 2020, the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited and issued 20,000,000 new ordinary shares.

## 2 SIGNIFICANT ACCOUNTING POLICES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable 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), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the “**Group**”).

The measurement basis used in the preparation of the financial statements is the historical cost basis except for investment properties (see Note 2(e)) which are stated at its fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (b) Basis of preparation of the financial statements (Continued)

The consolidated financial statements have been prepared assuming the Group will continue as a going concern notwithstanding the fact that the Group had net current liabilities of RMB11,172,000 as at 31 December 2021. As at 31 December 2021, the Group had banking facilities of RMB333,000,000 from third-party banks, of which the unutilized amount was RMB318,000,000. The drawdown of the credit facilities is subject to the terms and conditions of each agreement. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the twelve-month period from 1 January 2022 to 31 December 2022, the Group will take necessary measures, including drawdown of additional loans from the presently available banking facilities, to ensure the Group will have necessary liquid funds to repay its debts as and when they fall due, and to finance its working capital and capital expenditure requirements.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

### (c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this financial report for the current accounting year:

- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*
- Amendment to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (c) Changes in accounting policies (Continued)

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

#### Amendment to HKFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021 (2021 amendment)

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The adoption of the amendments does not have a significant impact on the consolidated financial statements.

#### Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – phase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“**IBOR reform**”).

The amendments do not have an impact on this financial report as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the financial information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (d) Subsidiaries (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(iii)).

### (e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment properties.

Investment properties are stated at fair value.

Leasehold land held for development into investment property, representing leasehold land located in the PRC for development into investment properties, is stated initially at cost and subsequently revalued as at the end of each reporting period.

Construction costs incurred for investment properties under development and leasehold land held for development into investment properties are capitalized as part of the carrying amount of the investment properties under development.

Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 2(t)(i).

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
- Electronic equipment 3-10 years
- Motor vehicles 4 years
- Machinery and equipment 10 years
- Office equipment 3-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (g) Lease

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### (i) As a lessee

A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Right-of-use assets that meet the definition of investment properties, are carried at fair value in accordance with Note 2(e).

Right-of-use assets related to interests in leasehold land where the interest in the land is held as properties under development for sale are carried at the lower of cost and net realisable value in accordance with Note 2(j).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (g) Lease (Continued)

#### (i) As a lessee (Continued)

The consideration paid to lease the state-owned or collectively-owned land in the PRC are treated as prepayment for land use rights and included in lease prepayments, which are stated at cost less accumulated amortisation and impairment loss. Land use rights measured at cost are amortised over the lease period using straight-line method.

The following land use rights with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Lease prepayment 37–50 years

#### (ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(t)(i).

### (h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)(iii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Software 5 years

Both the period and method of amortisation are reviewed annually.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (i) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, other receivables and prepayments).

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade receivables, other receivables and prepayments: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (i) Credit losses and impairment of assets (Continued)

#### (i) Credit losses from financial instruments (Continued)

##### *Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising-security (if any is held). 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.

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (i) Credit losses and impairment of assets (Continued)

#### (i) Credit losses from financial instruments (Continued)

##### *Basis of calculation of interest income*

Interest income recognised in accordance with Note 2(t)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

##### *Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the asset becomes 90 days past due or when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (i) Credit losses and impairment of assets (Continued)

#### (ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “**holder**”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised at fair value, which is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the carrying amount in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(i)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (i) Credit losses and impairment of assets (Continued)

#### (iii) Impairment of other assets

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

- Property, plant and equipment;
- Lease prepayments;
- Intangible assets; and
- Interests in subsidiaries in the Company's statement of financial position.

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

#### – *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

#### – *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, if measurable, or value in use, if determinable.

#### – *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (j) Properties under development for sale

Properties under development for sale, representing leasehold land and buildings located in the People's Republic of China (the "PRC") under development for future sale in the ordinary course of business, are stated at the lower of cost and net realizable value. Cost comprises the costs of land use rights, construction costs, borrowing costs capitalised and other direct development expenditure. Net realizable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Properties under development for sale are transferred to completed properties for sale upon completion of development.

### (k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(t)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(i)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(l)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(t)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(l)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(t)).

### (l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost using the effective interest method and including allowance for credit losses (see Note 2(i)(i)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(u)).

### (n) Other payables and accruals

Other payables and accruals are initially recognised at fair value. Subsequent to initial recognition, other payables and accruals are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (p) Restricted cash

Restricted cash represents amounts held by banks, which are not available for the Company's use, as security for certain special capital expenditures.

### (q) Employee benefits

#### Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (r) Income tax

Income tax for each reporting period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for each reporting period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2(e), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (r) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either; or
- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (s) Provisions and contingent liabilities

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (t) Revenue recognition

Income is classified by the Group as revenue when it arises from the use by others of the Group's assets under leases in the ordinary course of the Group's business.

The Group derives substantially all of its revenue from rental income from operating leases. The Group also derives a small portion of its revenue from the provision of property management services. Revenue is recognised when the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details of the Group's revenue and other income recognition policies are as follow:

#### (i) Rental income from operating leases

Rental income is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

#### (ii) Sale of properties

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities (see Note 2(k)).

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regard less of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed by the parties to the contract. For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

If the advance payments are regarded as providing a significant financing benefit to the Group, interest expense arising from the adjustment of time value of money will be accrued by the Group during the period between the payment date and the completion date of legal assignment. This accrual increases the balance of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23, Borrowing costs, in accordance with the policies set out in Note 2(u).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (t) Revenue recognition (Continued)

#### (iii) Property management service fee

The Group recognises revenue from the provision of property management services under HKFRS 15, Revenue from contracts with customers.

The Group recognised revenue when the performance obligation is satisfied, i.e. when “control” of the service underlying the particular performance obligation is transferred to the customer.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation as the customer simultaneously receives the benefits provided by the Group’s performance as the Group performs. Revenue from property management service is recognised over time as the Group performs the related service to the customer.

#### (iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

#### (v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

### (u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences 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 in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (v) Related parties

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 2 SIGNIFICANT ACCOUNTING POLICES (Continued)

### (w) Segment reporting

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

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

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies, which are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements. Note 28 contain information about the assumption and their risk factors relating to financial instruments. Other key source of estimation uncertainty is as follows:

### (a) Valuation of investment properties

Investment properties are included in the consolidated statement of financial position at their market value, unless they are still in the course of construction or development at the end of each reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed at each interim and annual reporting period by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential and redevelopment potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of each reporting period, with reference to the appropriate capitalisation rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 4 SEGMENT REPORTING

The directors of the Company have been identified as the Group's most senior executive management. Operating segments are identified on the basis of internal reports that the Group's most senior executive management reviews regularly in allocating resources to segments and in assessing their performances.

The Group's most senior executive management makes resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

The Group operates in Mainland China and accordingly, no geographical information is presented.

## 5 REVENUE

### Disaggregation of revenue

The amount of each significant category of revenue is as follows:

	Note	2021 RMB'000	2020 RMB'000
Property leasing	(i)	54,786	43,827
Others	(ii)	2,419	2,916
Total		57,205	46,743

- (i) The Group's revenue recognition policies are disclosed in Note 2(t). During the year, the Group's revenue mainly consists of revenue from property leasing and provision of property management services. Rental refunds are recognised in the profit and loss when the Group has an obligation for the refunds.

Due to the outbreak of COVID-19 epidemic in China, the trading centre of the Group was closed from 30 January 2020 to 21 February 2020. As approved by Board of Directors, the Company provided a one-off rental refund of approximately RMB1.7 million to its tenants in the fourth quarter of 2021(2020: RMB4.5 million).

- (ii) Others mainly represent revenue for provision of property management services and is recognised over time in accordance with HKFRS 15, Revenue from Contracts with Customers.

The Group's customer base is diversified and no single customer with whom transactions have exceeded 10% of the Group's revenues during the year.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its provision of property management services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for provision of property management services that have an original expected duration of one year or less.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 5 REVENUE (Continued)

#### Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied) as at 31 December 2021 and the expected timing of recognizing revenue are as follows:

	Sales of properties RMB'000	Property management services RMB'000
Within one year	94,383	1,403

### 6 OTHER NET INCOME

	Note	2021 RMB'000	2020 RMB'000
Interest income from bank deposits		415	66
Government grants	(i)	8,228	4,817
Net exchange loss		(163)	–
Total		8,480	4,883

- (i) During the year ended 31 December 2021, the government grants in connection with the Company's H share listing in HKEX in 2020 amounted to RMB8.0 million (2020: nil). During the year ended 31 December 2020, the local government provided government subsidies of approximately RMB4.4 million to the Group to partially compensate the rental refund the Group provided to its tenants.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

#### (a) Finance costs

	2021 RMB'000	2020 RMB'000
Interest expenses	3,918	4,120
Less: Interest expenses capitalised into an investment property under development and properties under development for sale	(3,182)	(4,120)
	736	–

The borrowing costs have been capitalised at a rate of 5.1% per annum during the year ended 31 December 2021 (2020: 5.6%).

#### (b) Staff costs

	2021 RMB'000	2020 RMB'000
Salaries, wages and other benefits	2,155	1,864
Contributions to the PRC local retirement schemes	449	249
	2,604	2,113
Included in:		
Cost of services	1,124	899
Administrative expenses	1,480	1,214
	2,604	2,113

Pursuant to the relevant labour rules and regulations in the PRC, the Company and its subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the Company and its subsidiaries in the PRC are required to make contributions to the Schemes based on certain percentages of the eligible employee's salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees other than the contributions described above.

The Group's contributions to the Defined Contribution Scheme vest fully with the employees upon such contributions being made and there are no forfeited contributions under the Defined Contribution Scheme that would be used by the Group to reduce the existing level of contributions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 7 PROFIT BEFORE TAXATION (Continued)

#### (c) Other items

	2021 RMB'000	2020 RMB'000
Amortisation	72	106
Depreciation		
– owned property, plant and equipment	834	1,134
– lease prepayments	22	23
	856	1,157
Auditor's remuneration	1,000	950

During the year ended 31 December 2021, lease cost arising from short-term leases that have lease term of 12 months or less amounted to RMB nil (2020: RMB340,000).

### 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### (a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Note	2021 RMB'000	2020 RMB'000
<b>Current tax</b>			
– PRC CIT	26	9,101	6,133
– Under-provision in respect of prior years	26	531	–
		9,632	6,133
<b>Deferred tax</b>	26	6,849	3,230
		16,481	9,363

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

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

	Note	2021 RMB'000	2020 RMB'000
Profit before taxation		63,798	37,444
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(i)	15,949	9,361
Under-provision in respect of prior years		531	–
Tax effect of non-deductible expenses		1	2
Actual tax expense		16,481	9,363

(i) The Company and its subsidiaries in the PRC are subject to PRC statutory income tax at 25%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 9 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2021	Directors' Fees (i) RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary Bonuses (ii) RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
<b>Executive Directors</b>					
Pan Haihong	–	95	–	–	95
Zhou Guilin	30	145	–	–	175
<b>Non-executive Directors</b>					
Huang Qun	–	–	–	–	–
Wang Wenming	–	–	–	–	–
Cheng Jinyun	–	–	–	–	–
Ye Yunzhi	–	–	–	–	–
<b>Independent Non-executive Directors</b>					
Xu Wei	30	–	–	–	30
Jin Hongqing	30	–	–	–	30
Tsoi Ka Shing	119	–	–	–	119
<b>Supervisors</b>					
Xie Yanli	–	–	–	–	–
Yang Mengjie	–	–	–	–	–
Xie Huihui	–	90	–	13	103
	209	330	–	13	552

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 9 DIRECTORS' REMUNERATION (Continued)

Year ended 31 December 2020	Directors' Fees (i) RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary Bonuses (ii) RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
<b>Executive Directors</b>					
Pan Haihong	–	15	–	–	15
Zhou Guilin	–	85	–	–	85
<b>Non-executive Directors</b>					
Huang Qun	–	–	–	–	–
Wang Wenming	–	–	–	–	–
Cheng Jinyun	–	–	–	–	–
Ye Yunzhi	–	–	–	–	–
<b>Independent Non-executive Directors</b>					
Xu Wei	–	–	–	–	–
Jin Hongqing	–	–	–	–	–
Tsoi Ka Shing	–	–	–	–	–
<b>Supervisors</b>					
Xie Yanli	–	–	–	–	–
Yang Mengjie	–	–	–	–	–
Xie Huihui	–	85	–	4	89
	–	185	–	4	189

(i) During the year, no emoluments were paid by the Group to the directors, supervisors or any of the five highest paid individuals set out in Note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office. Five directors have waived their directors' fees and three supervisors have waived their supervisors' fees during the year of 2021, and no directors have waived or agreed to waive any emoluments during the year of 2020.

(ii) Discretionary bonus is determined by reference to the performance of individuals and the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2020: none) are directors of the Company whose remuneration is disclosed in Note 9. The aggregate of the emoluments in respect of the other one (2020: five) individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowance and benefits in kind	114	439
Discretionary bonuses	–	–
Retirement scheme contributions	13	20
	<b>127</b>	459

The emoluments of the one (2020: five) individuals with the highest emoluments are within the following bands:

	2021 Number of Individuals	2020 Number of individuals
Nil – HK\$1,000,000	1	5

### 11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of RMB47,317,000 (2020: RMB28,081,000) and the weighted average of 80,000,000 ordinary shares in issue (2020: 60,109,589 shares) during the year, calculated as follows:

#### Weighted average number of ordinary shares

	2021	2020
Issued ordinary shares at 1 January	80,000,000	60,000,000
Effect of shares issued in the Company's initial public offerings ("IPO") (Note 27)	–	109,589
Weighted average number of ordinary shares at 31 December	<b>80,000,000</b>	60,109,589

The Company did not have any potential ordinary shares outstanding during the year. Diluted earnings per share is equal to basic earnings per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 12 INVESTMENT PROPERTIES

	<b>Completed investment property</b> RMB'000	<b>Investment property under development</b> RMB'000	<b>Total</b> RMB'000
At 1 January 2020	852,000	85,000	937,000
Additions	957	86,176	87,133
Fair value adjustments	(1,957)	5,164	3,207
At 31 December 2020 and 1 January 2021	851,000	176,340	1,027,340
Additions	262	77,693	77,955
Transfer to properties under development for sale	–	(110,600)	(110,600)
Fair value adjustments	14,738	5,167	19,905
At 31 December 2021	866,000	148,600	1,014,600

Fair value adjustments of investment properties are recognised in the line item "Valuation gains on investment properties" on the face of the consolidated statement of profit or loss and other comprehensive income.

The Group pledged a completed investment property with a carrying value of RMB866,000,000 (2020: RMB851,000,000) as at 31 December 2021 for two banking facilities amounting to RMB233,000,000 and RMB100,000,000 from two banks, respectively.

In September 2021, the management changed the use of a certain portion of investment properties under development. This portion of investment properties under development was transferred to properties under development for sale with a fair value of RMB110,600,000. More details are disclosed in Note 18.

#### (a) Fair value measurement of investment properties

##### (i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 12 INVESTMENT PROPERTIES (Continued)

#### (a) Fair value measurement of investment properties (Continued)

##### (i) Fair value hierarchy (Continued)

	Fair value at	Fair value measurements as at		
	31 December 2021 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Recurring fair value measurement</b>				
Investment Properties:				
– Completed – Mainland China	866,000	–	–	866,000
– Under development – Mainland China	148,600	–	–	148,600
	<b>1,014,600</b>	–	–	<b>1,014,600</b>

	Fair value at	Fair value measurements as at		
	31 December 2020 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Recurring fair value measurement</b>				
Investment Properties:				
– Completed – Mainland China	851,000	–	–	851,000
– Under development – Mainland China	176,340	–	–	176,340
	<b>1,027,340</b>	–	–	<b>1,027,340</b>

During the years ended 31 December 2020 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of each reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2021. The valuations were carried out by an independent firm of valuers in Hong Kong, Colliers International, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's directors and the financial manager have discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 12 INVESTMENT PROPERTIES (Continued)

#### (a) Fair value measurement of investment properties (Continued)

##### (ii) Information about Level 3 fair value measurements:

2021

	Valuation technique	Unobservable input	Range	Relationship of unobservable inputs to fair values
Completed investment property	Income Capitalisation Method	Capitalisation rate and discount factor	6.00% to 7.00%	The higher the rates, the lower the fair value
Investment property under development	Residual Approach	Adjusted market rent per month (RMB/square meter)	21 to 25	The higher the adjusted market rent, the higher the fair value
		Capitalisation rate and discount factor	6.00% to 7.50%	The higher the rates, the lower the fair value
		Budgeted cost per square meter	RMB2,151	The higher the budgeted cost, the lower the fair value
		Anticipated developer's profit margin	5%	The higher the anticipated developer's profit, the lower the fair value

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 12 INVESTMENT PROPERTIES (Continued)

#### (a) Fair value measurement of investment properties (Continued)

##### (ii) Information about Level 3 fair value measurements: (Continued)

2020

	Valuation technique	Unobservable input	Range	Relationship of unobservable inputs to fair values
Completed investment property	Income Capitalisation Method	Capitalisation rate and discount factor	6.00% to 7.00%	The higher the rates, the lower the fair value
Investment property under development	Market Approach	Adjusted market price per square meter (RMB/square meter)	3,211 to 4,587	The higher the adjusted market price, the higher the fair value
		Budgeted cost per square meter	RMB2,625	The higher the budgeted cost, the lower the fair value
		Anticipated developer's profit margin	5%-20%	The higher the anticipated developer's profit, the lower the fair value

The Group has two investment properties that are both located in Mainland China.

One investment property is completed, which is partially owner-occupied and partially subjected to existing tenancies as at the date of valuation. In this connection, for the property interests in vacant possession, the fair value has been determined assuming vacant possession could be immediately available as at the date of valuation. For the tenanted property interests, the fair value has been determined on the basis of capitalisation of the net income derived from the existing tenancies with due allowance for reversionary income potential of the respective properties and where appropriate, also made reference to the comparable market transactions.

The other investment property is under development, which consists of a leasehold land acquired in January 2019 and the construction costs occurred. The valuation of the investment property under development is carried at fair value by making reference to comparable sale transactions as available in the relevant markets and estimated costs to completion based on construction budget, committed contracts, allowances for contingencies as well as developer's profit margin, which reflect the risks in relation to the completion of the construction and marketability of proposed development, and in achieving the anticipated income or capital appreciation on the date of valuation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 12 INVESTMENT PROPERTIES (Continued)

### (b) Investment properties leased out under operating leases

The Group leases out investment property. The leases typically run for an initial period of 1 to 20 years.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

The Group does not have any material lease receivables under non-cancellable operating leases as at 31 December 2021 (2020: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 13 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Machinery and equipment RMB'000	Office equipment RMB'000	Total RMB'000
<b>Cost:</b>						
At 1 January 2020	10,705	1,352	555	399	240	13,251
Additions	-	20	-	-	-	20
At 31 December 2020 and 1 January 2021	10,705	1,372	555	399	240	13,271
Additions	-	27	-	-	-	27
At 31 December 2021	10,705	1,399	555	399	240	13,298
<b>Accumulated depreciation:</b>						
At 1 January 2020	(2,931)	(906)	(343)	(348)	(126)	(4,654)
Charge for the year	(720)	(230)	(132)	(5)	(47)	(1,134)
At 31 December 2020 and 1 January 2021	(3,651)	(1,136)	(475)	(353)	(173)	(5,788)
Charge for the year	(692)	(49)	(52)	(5)	(36)	(834)
At 31 December 2021	(4,343)	(1,185)	(527)	(358)	(209)	(6,622)
<b>Net book value:</b>						
At 31 December 2021	6,362	214	28	41	31	6,676
At 31 December 2020	7,054	236	80	46	67	7,483

All of the Group's buildings are located in the PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 14 LEASE PREPAYMENTS

	<b>Land use right</b> RMB'000
<b>Cost:</b>	
At 1 January 2020, 31 December 2020 and 31 December 2021	798
<b>Accumulated amortisation:</b>	
At 1 January 2020	(194)
Charge for the year	(23)
At 31 December 2020 and 1 January 2021	(217)
Charge for the year	(22)
At 31 December 2021	(239)
<b>Net book value</b>	
At 31 December 2021	559
At 31 December 2020	581

The lease prepayments represent the right-of-use assets in respect of leases under HKFRS 16.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 15 INTANGIBLE ASSETS

	<b>Software</b> RMB'000
<hr/>	
<b>Cost:</b>	
At 1 January 2020, 31 December 2020 and 31 December 2021	532
<b>Accumulated amortisation:</b>	
At 1 January 2020	(354)
Charge for the year	(106)
At 31 December 2020 and 1 January 2021	(460)
Charge for the year	(72)
At 31 December 2021	(532)
<b>Net book value:</b>	
At 31 December 2021	–
At 31 December 2020	72

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 16 OTHER NON-CURRENT ASSETS

	2021 RMB'000	2020 RMB'000
Prepaid business tax	3,392	3,674

Business tax was prepaid by the Company in respect of property leasing fees prepaid by tenants, which would be charged to profit or loss when the related prepaid leasing fees are recognised as revenue.

	2021 RMB'000	2020 RMB'000
At the beginning of the year	3,956	4,238
Amortisation for the year	(282)	(282)
At the end of the year	3,674	3,956

Reconciliation to the consolidated statement of financial position of the prepaid business tax:

	2021 RMB'000	2020 RMB'000
Other receivables and prepayments (Note 19)	282	282
Other non-current assets	3,392	3,674
	3,674	3,956

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 17 INTERESTS IN SUBSIDIARIES

The particulars of the Group's subsidiaries are as follows.

Name of company	Date and place of incorporation and business	Issued and paid-up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Wenling Measuring and Cutting Tools Network Co., Ltd. (" <b>Wenling Measuring and Cutting Tools Network</b> ") (i) (温岭工量刃具网有限公司)	27 July 2011 Wenling, the PRC	RMB100,000/ RMB100,000	100%	100%	-	E-commerce technology development services
Wenling Sunrise Real Estate Development Co., Ltd. (" <b>Wenling Xuri</b> ") (i) (温岭市旭日投资有限公司)	12 June 2018 Wenling, the PRC	RMB10,000,000/ RMB10,000,000	100%	100%	-	Investment, real estate development and management, conference and exhibition and related services
Wenling Chenxi Property Management Co., Ltd. (温岭市晨曦物业管理有限公司)	23 August 2021 Wenling, the PRC	RMB1,000,000/ RMB0	100%	-	100%	Property management services

(i) Limited liability company established under the PRC law

### 18 PROPERTIES UNDER DEVELOPMENT FOR SALE

After obtained the pre-sale certificate of properties on 22 September 2021, the Group entered into pre-sales contracts with third-party customers. The consideration was approximately RMB217,488,000 (VAT inclusive) in aggregate. Advance payments received by the Group amounting to RMB94,383,000 are recognised as contract liabilities as disclosed in Note 24. The remaining consideration is expected to be received within one year.

The Group provided mortgage loan guarantees to banks in favour of customers of these pre-sold properties, more details are disclosed in Note 30 and Note 33(i).

The Group's properties under development for sale is located in the PRC, and is stated at the lower of cost and net realizable value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 19 OTHER RECEIVABLES AND PREPAYMENTS

	2021 RMB'000	2020 RMB'000
Prepayments for services	689	–
Value-added tax (“VAT”) recoverable	9,112	7,025
Prepaid business tax	282	282
Others	80	37
	<b>10,163</b>	<b>7,344</b>

All of the other receivables and prepayments are expected to be recovered or recognised as expenses within one year.

### 20 LAND APPRECIATION TAX AND INCOME TAX PREPAID

	2021 RMB'000	2020 RMB'000
LAT	1,199	–
Income tax prepaid	1,771	–
	<b>2,970</b>	<b>–</b>

- (i) The LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including payments made for acquisition of land use rights, costs and expenses for the development of the land or for construction of new buildings and supporting facilities, or the assessed value for old buildings and structures, tax payable relating to transfer of the real estate and other deductible items prescribed by the Ministry of Finance. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land use rights and the costs of land development and construction of new buildings or related facilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 21 CASH AND CASH EQUIVALENTS

#### (a) Cash and cash equivalents comprise:

	2021 RMB'000	2020 RMB'000
Cash in hand	21	17
Cash at banks	78,713	85,372
	<b>78,734</b>	85,389

#### (b) Reconciliation of profit before taxation to cash generate from operations

	<i>Note</i>	2021 RMB'000	2020 RMB'000
<b>Operating activities</b>			
Profit before taxation		63,798	37,444
Adjustments for:			
Valuation gains on investment properties	12	(19,905)	(3,207)
Depreciation and amortisation	7(c)	928	1,263
Finance costs	7(a)	736	–
Interest income	6	(415)	(66)
Changes in working capital:			
Increase in properties under development for sale		(10,866)	–
Increase in other receivables and prepayments		(2,819)	(6,603)
Decrease in other non-current assets		282	282
Increase in other payables and accruals		5,755	2,381
(Decrease)/increase in receipts-in-advance, net		(6,707)	1,727
Increase in contract liabilities		95,786	–
Increase in restricted bank deposits		(196)	–
Cash generated from operations		<b>126,377</b>	33,221

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 21 CASH AND CASH EQUIVALENTS (Continued)

#### (c) Reconciliation of liabilities arising from financing activities

	<b>Bank loans and interests</b> RMB'000
<b>Balance at 1 January 2020</b>	59,856
Other change	
– Finance costs (Note 7(a))	4,120
Cash flow	
– Inflow from financing activities	180,462
– Outflow from financing activities	(162,653)
<b>Balance at 31 December 2020 and 1 January 2021</b>	81,785
Other changes	
– Finance costs (Note 7(a))	3,918
Cash flows	
– Inflow from financing activities	125,000
– Outflow from financing activities	(195,680)
<b>Balance at 31 December 2021</b>	15,023

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 22 BANK LOANS

As at 31 December 2021, the bank loans were repayable as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	15,000	40,462
After 1 year but within 2 years	–	40,000
Total non-current bank loans	–	40,000
	<b>15,000</b>	80,462

As at 31 December 2021, the bank loans were secured as follows:

	2021 RMB'000	2020 RMB'000
<b>Bank loans</b>		
– secured	15,000	80,462

- (i) In November 2018, the Company obtained a banking facility of RMB233,000,000 valid from 28 November 2018 to 28 November 2023 from a third-party bank, which was pledged by a completed investment property with a carrying value of RMB866,000,000 as of 31 December 2021. The drawdown of the credit facility is subject to the terms and conditions of the agreement.
- (ii) In January 2019, the Company obtained a banking facility of RMB100,000,000 valid from 3 January 2019 to 1 January 2024 from a third-party bank, which was secondarily pledged by the same investment property as described in Note 22(i) above. The drawdown of the credit facility is subject to the terms and conditions of the agreement. As of 31 December 2021, the Group had an outstanding loan of RMB15,000,000 under this banking facility with an effective interest rate of 5.496% per annum. The loan was repaid on 4 January 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 23 OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Payable for purchase of property, plant and equipment, investment properties and properties under development for sale	38,868	12,855
Accrued payroll	220	259
Other taxes payable	11,236	3,291
Accrued interests	23	1,323
Deposits	1,002	840
Payable for listing expenses	–	3,166
Payable for professional fees	1,601	1,870
Payable for property management fees and utilities	221	407
Others	423	2,281
	<b>53,594</b>	<b>26,292</b>

All of the other payables and accruals are normally settled within one year or are repayable on demand.

### 24 CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Advance payments received		–
– Property development	94,383	
– Property management services	1,403	
	<b>95,786</b>	<b>–</b>

For property development, the Group receives deposits and prepayments from customers based on billing schedule as established in contracts. These deposits and prepayments are recognised as contract liabilities until the properties are completed and legally assigned to the customer.

For property management services, the Group recognises revenue as the services are provided and recognises to which the Group has a right to invoice.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 24 CONTRACT LIABILITIES (Continued)

Movements in contract liabilities during the year are as follows:

	2021 RMB'000	2020 RMB'000
Balance at 1 January	–	–
Increase in contract liabilities as a result of receiving advance payments during the year in respect of properties still under construction as at the year end	94,383	–
Increase in contract liabilities as a result receipts in advances of provision of property management services	1,403	–
Balance at 31 December	95,786	–

All the advance payments received from pre-sales of properties under development and provision of property management services are expected to be recognised as revenue within one year.

### 25 RECEIPTS-IN-ADVANCE

Receipts-in-advance mainly represents property leasing fees prepaid by tenants. The receipts-in-advance that are expected to be recorded as revenue within one year of the balance sheet date are recorded as current liability, and receipts-in-advance that are expected to be recorded as revenue beyond one year of the balance sheet date are recorded as non-current liability.

	2021 RMB'000	2020 RMB'000
At the beginning of the year	131,463	129,736
Carry-over to revenue for the year	(57,795)	(50,907)
Receipts during the year	51,088	52,634
At the end of the year	124,756	131,463

Reconciliation to the consolidated statement of financial position:

	2021 RMB'000	2020 RMB'000
Receipts-in-advance, current	50,999	53,114
Receipts-in-advance, non-current	73,757	78,349
	124,756	131,463

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### (a) Current taxation in the consolidated statement of financial position represents:

	2021 RMB'000	2020 RMB'000
At the beginning of the year	10,158	6,308
Provision for current income tax for the year (Note 8(a))	9,632	6,133
Payments during the year	(11,884)	(2,283)
At the end of the year	7,906	10,158
Representing:		
Tax recoverable (Note 20)	(1,771)	–
Tax payable	9,677	10,158
	7,906	10,158

#### (b) Deferred tax assets and liabilities recognised

##### (i) Movement of each component of deferred tax assets and liabilities

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

Deferred tax arising from	Note	Provision for depreciation and amortisation RMB'000	Revaluation of investment properties RMB'000	Interest capitalisation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020		13,087	154,777	511	(176)	168,199
Charged/(credited) to profit or loss	8(a)	1,489	802	1,030	(91)	3,230
At 31 December 2020 and 1 January 2021		14,576	155,579	1,541	(267)	171,429
Charged/(credited) to profit or loss	8(a)	1,501	4,976	551	(179)	6,849
At 31 December 2021		16,077	160,555	2,092	(446)	178,278

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 27 CAPITAL, RESERVES AND DIVIDENDS

#### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below.

#### The Company

	Note	Share capital RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
<b>Balance at 31 December 2019 and 1 January 2020</b>						
		60,000	35,507	3,868	536,306	635,681
Profit for the year		-	-	-	21,393	21,393
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	21,393	21,393
Issue of ordinary shares upon initial public offering, net of issuing costs	27(c)	20,000	32,058	-	-	52,058
Appropriation for PRC statutory reserve	27(d)(ii)	-	-	1,839	(1,839)	-
Profit distribution in respect of the previous year	27(b)	-	-	-	(3,000)	(3,000)
<b>Balance at 31 December 2020 and 1 January 2021</b>						
		80,000	67,565	5,707	552,860	706,132
Profit for the year		-	-	-	42,325	42,325
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	42,325	42,325
Appropriation for PRC statutory reserve	27(d)(ii)	-	-	2,677	(2,677)	-
<b>Balance at 31 December 2021</b>						
		80,000	67,565	8,384	592,508	748,457

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

#### (b) Dividends

- (i) Dividends payable to equity shareholders of the Company attributable to the year:

	2021 RMB'000	2020 RMB'000
Final dividend proposed after the statement of financial position date of RMB0.32 (2020: nil) per ordinary share	25,600	–

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year	–	3,000
	–	3,000

The directors consider that the dividends declared and approved during the year ended 31 December 2020 are not indicative of the future dividend policy of the Group.

#### (c) Share capital

Ordinary shares, issued and fully paid:

	2021 RMB'000	2020 RMB'000
At 1 January	80,000	60,000
Issuance of H shares	–	20,000
At 31 December	80,000	80,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (c) Share capital (Continued)

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

In connection with the Company's IPO on the Main Board of The Stock Exchange of Hong Kong Limited on 30 December 2020, 20,000,000 H shares with a par value of RMB1.00 each were issued at a share price of HK\$6.25, for total gross proceeds of HK\$125,000,000 (approximately equivalent to RMB105,239,125). Total gross proceeds from the IPO less the underwriting commission fee and other listing expenses were recognised in equity. As a result, share capital increased by RMB20,000,000 (representing par value) and capital reserve increased by RMB32,057,534 (representing share premium).

### (d) Nature and purpose of reserves

#### (i) Capital reserve

The capital reserve comprises of share premium of the Company.

#### (ii) PRC statutory reserve

According to the PRC Company Law, the Company and its PRC subsidiaries are required to transfer 10% of their profit after taxation (after offsetting the losses in the preceding years), as determined under the PRC Accounting Regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their registered capital.

The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund can be used to cover previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholder and benefits for other stakeholders, by pricing rental and management fee commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of bank loans less cash and cash equivalents, and equity of the Group, comprising issued share capital, retained profits and other reserves.

The directors of the Company review the capital structure periodically. Based on the operating budgets, the directors consider the cost of capital and the risks associated with each class of capital and balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

The Group is not subject to externally imposed capital requirements throughout the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate arises in the normal course of the Group's business. The Group's business exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to cash and cash equivalents and other receivables and prepayments. The Group's exposure to credit risk arising from cash is limited because the counterparties are banks with good credit rating, for which the Group considers to have low credit risk.

Except for the financial guarantees given by the Group as set out in Note 30, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in Note 30.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The management reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are recorded for irrecoverable amounts. Normally, the Group requires its customers to prepay the property leasing fees and the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2020 and 2021, the Group does not have any debtors that are past due but not impaired based on individual or collective assessment.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs and loss allowances for other receivables and prepayments at an amount equal to 12-month ECL, unless the risk that the specified debtor will default has increased significantly, in which case a lifetime ECL is measured. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable. As at 31 December 2020 and 2021, expected credit loss rate for financial assets measured at amortised costs was immaterial because 1) the Group did not have any material trade receivables because property leasing income was mostly received in advance for at least a year; and 2) based on past experience, management believed that no impairment allowance was necessary in respect of amounts due from related parties as there had been no significant change in credit quality and the balances were still considered fully recoverable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

#### (b) Liquidity risk

The Group's management reviews the liquidity position of the Group on an ongoing basis, including review of the expected cash inflows and outflows and maturity of loans and borrowings in order to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and/or from other Group companies to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest date the Group can be required to pay.

	As at 31 December 2021					Carrying amount at 31 December RMB'000
	Contractual undiscounted cash flows					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Bank loans (excluding accrued interests)	15,000	-	-	-	15,000	15,000
Accrued interests of bank loans	23	9	-	-	32	23
Other payables and accruals (excluding accrued interests of bank loans)	53,571	-	-	-	53,571	53,571
	<b>68,594</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>68,603</b>	<b>68,594</b>

	As at 31 December 2020					Carrying amount at 31 December RMB'000
	Contractual undiscounted cash flows					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Bank loans (excluding accrued interests)	40,462	40,000	-	-	80,462	80,462
Accrued interests of bank loans	4,257	922	-	-	5,179	1,323
Other payables and accruals (excluding accrued interests of bank loans)	24,969	-	-	-	24,969	24,969
	<b>69,688</b>	<b>40,922</b>	<b>-</b>	<b>-</b>	<b>110,610</b>	<b>106,754</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

#### (c) Interest rate risk

The Group's interest rate risk arises primarily from cash and cash equivalents.

The Group is not exposed to significant interest rate risk for cash and cash equivalents because the interest rates of cash at bank are not expected to change significantly.

#### (d) Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. The Group's exposure to foreign exchange risk primarily stems from holdings of cash and cash equivalent denominated in HK\$. The Group does not use derivative financial instruments to hedge its foreign currency risk. The Group reviews its foreign currency exposures regularly and considers no significant exposure on its foreign exchange risk.

#### (e) Fair value measurement

As at 31 December 2020 and 2021, the carrying amounts of other receivables and prepayments, other payables and accruals and bank loans were not materially different from their fair values.

### 29 COMMITMENTS

Capital commitments outstanding at 31 December 2021 not provided for in the financial statements were as follows:

	2021 RMB'000	2020 RMB'000
Authorised but not contracted for	26,294	132,687
Contracted for	76,112	92,912
	<b>102,406</b>	225,599

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 30 CONTINGENT LIABILITIES

	2021 RMB'000	2020 RMB'000
Mortgage loan guarantees provided by the Group to banks in favour of its customers	37,510	–

As disclosed in Note 18, the Group provides mortgage loan guarantees to banks in favour of customers of pre-sold properties. These guarantees will be released upon receiving the property ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. In the opinion of the directors, the fair values of these financial guarantee contracts of the Group at initial recognition are insignificant and the directors consider that the possibility of default by the purchasers of the Group's properties is remote.

Accordingly, no value has been recognised at the inception of the guarantee contracts as at 31 December 2021.

### 31 MATERIAL RELATED PARTY TRANSACTIONS

#### (a) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Company's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	728	304
Discretionary bonuses	–	–
Retirement scheme contributions	39	20
	767	324

The above remuneration to key management personnel is included in "staff costs" (see Note 7(b)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2021 RMB'000	2020 RMB'000
<b>Non-current assets</b>		
Investment properties	866,000	851,000
Property, plant and equipment	6,676	7,483
Lease prepayments	559	581
Intangible assets	–	72
Other non-current assets	3,392	3,674
Amount due from a subsidiary	157,847	141,658
Interests in subsidiaries	10,100	10,100
	1,044,574	1,014,568
<b>Current assets</b>		
Other receivables and prepayments	1,169	474
Cash and cash equivalents	32,565	83,216
	33,734	83,690
<b>Current liabilities</b>		
Short-term loans	15,000	28,462
Other payables and accruals	5,206	13,420
Contract liabilities	1,403	–
Receipts-in-advance, current	50,999	53,114
Current taxation	9,677	10,158
	82,285	105,154
<b>Net current liabilities</b>	(48,551)	(21,464)
<b>Total assets less current liabilities</b>	996,023	993,104

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

### 32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)

	2021 RMB'000	2020 RMB'000
<b>Non-current liabilities</b>		
Long-term loan	–	40,000
Receipts-in-advance, non-current	73,757	78,349
Deferred tax liabilities	173,809	168,623
	247,566	286,972
<b>NET ASSETS</b>	748,457	706,132
<b>CAPITAL AND RESERVES</b>		
Share capital	80,000	80,000
Reserves	668,457	626,132
<b>TOTAL EQUITY</b>	748,457	706,132

### 33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (i) After the end of the reporting period the Group provided mortgage loan guarantees of RMB79,240,000 to banks in favour of its customers. These guarantees will be released upon receiving the property ownership certificate of the respective properties by the banks from the customers as a pledge for security to the mortgage loans granted. In the opinion of the directors, the fair values of these financial guarantee contracts of the Group at initial recognition are insignificant and the directors consider that the possibility of default by the purchasers of the Group's properties is remote. No adjustment has been made in these financial statements in this regard.
- (ii) In December 2021, the Company entered into an agreement with a third-party company to buy its 20% shares with a consideration of RMB8 million. According to the agreement, the Company can have the shareholder's rights and have significant influence upon full payment of the consideration. The Company fully paid the consideration on 11 January 2022.
- (iii) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 27(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi, except share data, or otherwise noted)

## 34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2021, the directors consider the immediate parent and ultimate controlling party of the Group to be Wenling State-owned Assets Supervision and Administration Commission. This entity does not produce financial statements available for public use.

## 35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue this report, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to HKFRS 3, Reference to the Conceptual Framework	January 1, 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022
Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	January 1, 2022
Amendments to HKAS 1, Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, <i>Disclosure of accounting policies</i>	January 1, 2023
Amendments to HKAS 8, <i>Definition of accounting estimates</i>	January 1, 2023
Amendments to HKAS 12, <i>Deferred tax related to assets and liabilities arising from a single transaction</i>	January 1, 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.