Champion Alliance International Holdings Limited
冠均國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1629

LEADING IN INNOVATION STRIVING FOR EXCELLENCE

2021
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

Stock code
1629

Name of directors
Mr. Chen Shuming *(Chairman and Executive Director)*
Mr. Chen Xiaolong *(Executive Director)*
Mr. Hu Enfeng *(Executive Director)*
Ms. Wu Cheuk Yan *(Executive Director)*
Mr. Zhang Shihua *(Executive Director)*
Ms. Chen Xiaoyan *(Executive Director)*
Mr. Chen Hua *(Independent non-executive Director)*
Mr. Zhao Zhendong *(Independent non-executive Director)*
Mr. Chin Chi Ho Stanley
(Independent non-executive Director)

Registered office
Second Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman KY1-1103
Cayman Islands

Headquarters in the PRC
Dongping Economic Development Zone
Shandong Province
PRC

Principal place of business in Hong Kong
Room A, 17th Floor
Capitol Centre Tower 2
28 Jardine's Crescent
Causeway Bay
Hong Kong

Company's website
www.championshipintl.com
(Note: the information contained in this website does not form part of this report)

Company secretary
Ms. Leung Mei King

Authorised representatives
Mr. Chen Shuming
Ms. Leung Mei King

Audit committee
Mr. Chin Chi Ho Stanley *(Chairman)*
Mr. Chen Hua
Mr. Zhao Zhendong

Remuneration committee
Mr. Chen Hua *(Chairman)*
Mr. Chen Shuming
Mr. Zhao Zhendong

Nomination committee
Mr. Chen Shuming *(Chairman)*
Mr. Zhao Zhendong
Mr. Chin Chi Ho Stanley

Principal share registrar
Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman KY1-1103
Cayman Islands

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

Principal bankers
China Merchants Bank, Yichang Branch
Bank of China Limited, Yichang Dongshan Branch

Legal adviser as to Hong Kong laws
Michael Li & Co.
19th Floor, Prosperity Tower
39 Queen's Road East
Central, Hong Kong

Auditor
BDO Limited
Certified Public Accountants
Registered Public Interest Entity Auditor
25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Champion Alliance International Holdings Limited (the "Company" or "Champion Alliance International Holdings"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 ("Year" or "Reporting Period").

In 2021, economic activities in China cooled rapidly in the last quarter, dragged down by the weakening investment. However, the country's full-year GDP managed to surpass market expectation with its largest growth in a decade at 8.1%, thanks to the strong rebound in the first half of the year.

The government's pandemic control measures prompted the domestic industrial activities to gradually return to full capacity. Furthermore, as China celebrated its success in achieving moderate prosperity and building a "Xiaokang" society in 2021, the nation witnessed a sustained growth in all aspects of its economy. That has continued to propel the household income growth and subsequently the rising consumption demand, thereby creating a favourable operating environment for the Group's new operations, including provision of steam for industrial use and heating and electricity, as well as trading of household paper products. Nearly three years after entering these new business areas, the Group is now better positioned to capture the growing domestic consumption demand in the future.

During the Reporting Period, the Group's revenue decreased 13.4% to approximately RMB492.4 million because of the tightening regulatory effort that weakened the demand growth for cigarette packaging demand. Among which, new operations continued to provide a stable income source and accounted for 66.5% of the Group's total revenue.

Gross profit for the Reporting Period amounted to approximately RMB102.9 million, representing a year-on-year increase of approximately 20.4%. Gross profit margin was approximately 20.9%. Profit attributable to shareholders of the Company amounted to approximately RMB24.4 million.

Looking ahead, China's economic headwind looms large. After two years of largely containing the pandemic, China has seen different cities in lockdowns, including two of the biggest cities of the country, Shanghai and Shenzhen, due to the new wave of infections caused by the highly transmissible Omicron variant. The outbreak has now threatened to cause disruptions to the global supply chains and China's economic recovery.

In light of the worsening near-term outlook of the economy, it is expected the central government will roll out a series of fiscal and monetary support to various industries to boost domestic consumption, in particular, after the government announced its target to expand the economy by 5.5% in 2022. We will remain prudent and keep abreast of market changes to refine our business strategies, while continuing to provide high-quality cigarette packaging products to customers and drive a stable development for its new operations to catalyse growth for the Group.

On behalf of the Board, I would like to express my gratitude to the continuous trust and support of all shareholders, investors, business partners and customers. The management team and all staff members of the Group will continue to strive for better results for the Group together and bringing higher returns to the shareholders.

Chen Shuming
Chairman and Executive Director
Hong Kong, 29 April 2022

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the production and sale of metallised packaging paper for cigarette package manufacturers. The Group has an operating history of more than 10 years, with two main line of products, being transfer metallised paper and laminated metallised paper. Since 2019, the Group successfully diversified its business with household paper products and new energy operation (steam for industrial use, household heating, and electricity supply). The Group will hence continue to stride with its three core businesses.

MARKET REVIEW

In 2021, the global economy continued to pick up from the pandemic of the novel coronavirus ("COVID-19"), resurgence of the infections and the new Delta and Omicron variants posed new threats to the many economies across the world. Since the pandemic had been largely contained in People's Republic of China ("PRC" or "China"), industrial production and economic activities has gradually recovered to pre-pandemic level. The country's economy showed resilience as it witnessed a full-year gross domestic product ("GDP") expansion of 8.1% in 2021, exceeding the government's target of 6%. However, China's economy continued to slow down as the country's GDP growth rate for the fourth quarter of 2021 dropped from 4.9% (third quarter) to 4% due to factors including the government's continued deleveraging efforts and weaker domestic spending.

BUSINESS REVIEW

i. Cigarette packaging products

Hubei Mengke Paper Co., Ltd (湖北盟科紙業有限公司) ("Hubei Mengke"), a subsidiary of the Company engaging in the production and processing of cigarette packaging products in Hubei Province.

Hubei Province was one of the hardest hit regions when the COVID-19 first broke out in the country. Fortunately, the provincial economy gained momentum with a full-year GDP of approximately RMB5,001.3 billion, a year-on-year increase of 12.9%. The consumer market in Hubei Province has also witnessed a tremendous recovery throughout the year. In 2021, retails sales of consumer goods in the province reached RMB2,156.1 billion, up 19.9% year on year.

The government of the PRC extended its effort in the structural reform of the tobacco market, which included cigarette control, promotion of mental and physical health, and cancer prevention. To address these regulatory changes and align with the government's long-term vision to the market development, the Group strived to keep a close tie with its existing customers, suppliers and government authorities, while expanding sales and marketing efforts to engage with potential customers for new business opportunities.

ii. Steam for industrial use and heating and electricity

During the reporting period, the Group's new energy business relied on a professional technology management team of a heating and electricity company which provides integrated services solutions for high-efficiency clean coal technology, clean production, energy saving, and environmental protection. Through these solutions, the Group has helped the country's clean energy industry to transform, upgrade and tackle the long-existing heating supply problem in urban areas and industrial parks.

MANAGEMENT DISCUSSION AND ANALYSIS

The continued development of the domestic economy and industrial activities has prompted a substantial growth in energy demand, especially from industrial parks. With the industrial and manufacturing activities slowly returning to pre-pandemic level and favourable government policies to drive investment in this space, we witnessed an increasing application of combined heat and power, which subsequently boosted the investment in total installed generation capacity in the country.

During the reporting period, revenue of this segment was approximately RMB156.6 million, representing an increase of approximately 35.7% as compared to the corresponding period in 2020.

iii. Household paper products

With the growing wealth and disposable income of people in China, health awareness continued to increase, which has driven the demand for high-quality household paper products, in particular since the outbreak of COVID-19.

Our partnering brands are widely recognised in China for years and have been chosen as the "China's 500 Most Valuable Brands" for years. During the reporting period, revenue of this segment was approximately RMB170.7 million.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, total revenue of the Group was approximately RMB492.4 million, representing a decrease of approximately RMB76.3 million over the total revenue of approximately RMB568.7 million for the corresponding period in 2020. Such decrease was because of the decrease in the sale of cigarette packaging materials and household paper products.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2021 and 2020:

	For the year ended 31 December		
	2021	2020	**Change**
	RMB'000	*RMB'000*	*%*
Cigarette packaging products			
– transfer metallised paper	**151,118**	177,956	(15.1)
– laminated metallised paper	**13,037**	20,870	(37.5)
– processing service income	**991**	18,642	(94.7)
Steam for industrial use and heating and electricity	**156,605**	115,379	35.7
Household paper products	**170,663**	235,854	(27.6)

i. Cigarette packaging business

Revenue of the cigarette packaging business decreased to approximately RMB165.1 million for the year ended 31 December 2021 from RMB217.5 million for the corresponding period in 2020. Such decrease was mainly because of a drop in sales volume of cigarette packaging products.

MANAGEMENT DISCUSSION AND ANALYSIS

ii. Other businesses

To enhance and reinforce its business, the Group launched other businesses in early 2019. Other businesses mainly include sale of household paper products, as well as sale of steam for industrial use and heating and electricity.

Other businesses contributed revenue of approximately RMB327.3 million in 2021, representing a decrease of 6.8% from the year ended 31 December 2020. The decrease was mainly attributable to a higher base in sales of household paper products in 2020 resulting from the robust consumers' demand for household paper products amidst the outbreak of the novel coronavirus.

Gross Profit and Gross Profit Margin

The Group's gross profit increased from approximately RMB85.4 million for the year ended 31 December 2020 to approximately RMB102.9 million for the year ended 31 December 2021. The increase was mainly due to the effectiveness in cost control of the Group. Gross profit margin increased from approximately 15.0% for the year ended 31 December 2020 to approximately 20.9% for the year ended 31 December 2021.

Other Income and Gains

For the year ended 31 December 2021, the Group's net other income and gains mainly consisted of rental income, bank interest income, subsidy income, government grants and other income. The other income and gains increased by approximately 254.8% to approximately RMB9.3 million for the year ended 31 December 2021 from approximately RMB2.6 million for the year ended 31 December 2020. The increase was mainly due to the governmental subsidies received for the reporting period.

Selling and Distribution Expenses

During the reporting period, selling and distribution expenses mainly consisted of (i) costs of transportation expenses, (ii) staff costs, (iii) entertainment expenses, (iv) travelling expenses and (v) other expenses. The Group's selling and distribution expenses decreased by approximately 34.4% from approximately RMB40.7 million for the year ended 31 December 2020 to approximately RMB26.7 million for the year ended 31 December 2021. The decrease in selling and distribution expenses was mainly due to the decrease in revenue.

Administrative Expenses

For the year ended 31 December 2021, administrative expenses mainly consisted of (i) staff costs, (ii) depreciation and amortisation, (iii) entertainment expenses, (iv) office expenses and (v) legal and professional fee. Administrative expenses decreased from approximately RMB23.7 million for the year ended 31 December 2020 to approximately RMB22.3 million for the year ended 31 December 2021. The decrease in administrative expenses of the Group was mainly due to the decrease of staff costs and repair and maintenance expenses for the reporting period.

Other Expenses

For the year ended 31 December 2021, the Group's other expenses consisted of research and development expenses and depreciation. The net other expenses were approximately RMB8.4 million for the year ended 31 December 2021 as compared to approximately RMB8.3 million for the year ended 31 December 2020.

Finance Costs

Finance costs consisted of interest expenses from bank and other borrowings and interest on lease liabilities. The finance expenses were approximately RMB3.6 million for the reporting period (for the year ended 31 December 2020: RMB7.7 million). The decrease was mainly attributable to the decrease in interest expenses from a loan from an independent third party.

Income Tax Expense

The Group's income tax expense was approximately RMB17.8 million for the year ended 31 December 2021. The Group's income tax expense was approximately RMB6.8 million in the same period of 2020.

Profit/(Loss) Attributable to Owners of the Company

For the year ended 31 December 2021, the Group's profit attributable to owners of the Company was approximately RMB24.4 million. Loss attributable to owners of the Company for the year ended 31 December 2020 was approximately RMB0.5 million. The profit was mainly attributable to the effectiveness in cost control and governmental subsidies received during the reporting period.

LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets

The Group recorded net current assets of approximately RMB76.5 million as at 31 December 2021, while the net current assets as at 31 December 2020 was approximately RMB70.9 million.

Borrowings and Gearing Ratio

The total borrowings of the Group as at 31 December 2021 were approximately RMB41.1 million (as at 31 December 2020: RMB48.5 million). The Group's gearing ratio decreased from approximately 53.7% as at 31 December 2020 to approximately 27.9% as at 31 December 2021. The decrease in the gearing ratio was primarily a result of the decrease in bank borrowings and lease liabilities. Gearing ratio was calculated by dividing total debt (which mainly consisted of bank and other borrowings, amount due to the ultimate holding company, amount due to a company controlled by a former director, amount due to a company controlled by a director of a subsidiary, amount due to a director of a subsidiary, amount due to a former shareholder of a subsidiary and lease liabilities) by total equity as at the dates indicated and multiplied by 100%.

Capital Expenditure

During the year ended 31 December 2021, the Group's total capital expenditure amounted to approximately RMB256.7 million, which was mainly used in plant and machinery and office equipment (year ended 31 December 2020: RMB15.6 million).

Treasury Policies

The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

Capital Structure

As at 31 December 2021, the capital structure of the Group consists of equity attributable to owners of the Company, which comprises issued share capital and reserves. The numbers of the Company's issued shares have increased to 546,092,537 as at 31 December 2021 (year ended 31 December 2020: 500,000,000), while there is no change in the number of authorized share capital during the year.

Charge on Assets

The Group's borrowings and notes payables were secured by its property, plant and equipment, investment property, right-of-use assets and restricted cash. The following table sets forth the carrying amounts of assets pledged to secure the bank borrowings and bills payables:

	As at 31 December 2021 *RMB'000*	As at 31 December 2020 *RMB'000*
Property, plant and equipment	**12,809**	13,927
Investment property	**4,086**	4,350
Right-of-use assets	**10,388**	10,714
Restricted cash	**26,641**	48,721
Total	**53,924**	77,712

In addition to the above, as at 31 December 2021, the Group has pledged the equity interest in a wholly-owned subsidiary to secure the other borrowing of the Group.

MAJOR TRANSACTION

To capture the growing market opportunities, on 8 July 2021, Champion Alliance (Shandong) New Energy Limited Company* (冠均華盈(山東)新能源有限公司), an indirect 97% owned subsidiary of the Company, entered into an agreement with Shandong Ruiaote Investment Company Limited* (山東瑞奧特投資有限公司) and Qingdao Fenbaoli International Trade Company Limited* (青島芬寶利國際貿易有限公司) (collective, the "Vendors"), and China Coal Dongneng (Shandong) Clean Energy Company Limited* (中煤東能(山東)清潔能源有限公司) (the "Target Company"), to acquire the 51% equity interest in the Target Company held by the Vendors in aggregate for a total consideration of RMB102,940,000 (equivalent to HK$123,528,000). The acquisition, which was completed on 27 October 2021, allowed the Group to gain control of the production facilities in order to secure the stable operation of its new energy operation.

Contingent Liabilities

As at 31 December 2021, the Group did not have any significant contingent liabilities (as at 31 December 2020: nil).

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Risk

The Group's transactions were mainly conducted in RMB, the functional currency of certain subsidiaries of the Group, and the major receivables and payables were denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash and other payables maintained in Hong Kong dollars ("HK$"). The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the year ended 31 December 2021 (year ended 31 December 2020: nil).

Human Resources and Remuneration

As at 31 December 2021, the Group employed 280 employees (as at 31 December 2020: 257) with total staff costs of approximately RMB24.9 million incurred for the same period (for the year ended 31 December 2020: approximately RMB22.0 million). The increase of staff costs of the Group was mainly due to the increase in direct labour costs. The Group's remuneration packages are generally structured with reference to market terms and individual merits.

Final Dividend

The Board proposed not to declare any final dividend for the year ended 31 December 2021 (year ended 31 December 2020: nil).

Use of Net Proceeds from the Listing

The Company listed its Shares on the Stock Exchange on 25 November 2016 (the "Listing Date"). Net proceeds from the listing of the Shares (the "Listing") (after deduction of the underwriting commission and relevant expenses) were approximately HK$42.2 million (equivalent to approximately RMB37.6 million), which has been applied in the manner as disclosed in the prospectus of the Company dated 15 November 2016 (the "Prospectus").

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2021, the net proceeds from the Listing has been utilised as follows:

Use of net proceeds from the Listing	Adjusted use of net proceeds in the manner and proportion as stated in the Prospectus	Approximate% of total actual net proceeds	Actual amount utilised from the Listing Date up to 31 December 2021	Balance as at 31 December 2021	Expected timeline for the remaining use of net proceeds *(Note)*	
					For the year ending 31 December 2022	For the year ending 31 December 2023
	RMB'000		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Purchase and upgrade of production equipment, as well as expansion and maintenance of the production facilities	23,303	62%	3,568	19,735	1,969	17,766
Expansion and upgrade of non-production facilities, including but not limited to warehouse and other supporting facilities	5,638	15%	1,334	4,304	226	4,078
Business development expenditures, including expanding the geographical coverage of sales network and research and development expenditures relating to the purchase of research and development equipment and to future research and development projects	4,886	13%	4,886	–	–	–
Working capital and general corporate purposes	3,758	10%	3,758	–	–	–
	37,585	100%	13,546	24,039	2,195	21,844

Note: The expected timeline for utilising the remaining net proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

As at 31 December 2021, unutilised proceeds amounted to approximately HK$29.5 million (equivalent to approximately RMB24.0 million), which will be invested in production plant, equipment upgrade and technical development. The unutilised portion of the net proceeds has been placed as interest bearing deposits with licensed banks as restricted cash in the PRC. As at the date of this report, the Directors do not anticipate any change to the plan on the use of net proceeds.

Future Plans for Material Investments or Capital Assets

Save for the business plan disclosed in the Prospectus or in this report, there is no other plan for material investments or capital assets as at 31 December 2021.

Capital Commitments

	2021	2020
	RMB'000	*RMB'000*
Commitments for the acquisition of:		
– Property, plant and equipment	**5,160**	–

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

The following are some principal risks and uncertainties facing the Group, which may pose material and adverse effects on its business, financial condition or results of operations:

Increasingly Regulated Industry

The PRC tobacco industry is becoming increasingly regulated and our business is subject to various industry requirements. In 2014, the State Tobacco Monopoly Administration (中國國家煙草專賣局) published the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》), which limits the cost of cigarette packaging by setting a maximum ratio on the packaging cost to the cigarette selling price to avoid excessive packaging. Under these requirements, the ratio for tier 1 to tier 3 cigarettes must be no more than 8% to 11% and the ratio for tier 4 to tier 5 cigarettes must be no more than 12%. Our products are primarily used for mid to high-end cigarette brands in tier 1 to tier 3. The PRC cigarette packaging industry could be negatively affected by these requirements or any future regulatory control, industry policies or applicable guidelines or requirements, as they may reduce cigarette manufacturers' spending on the PRC cigarette packaging or otherwise place negative pricing pressure on cigarette package manufacturers. This may cause cigarette package manufacturers to reduce their demand for our products or result in increased competition among cigarette packaging paper manufacturers which drives down the selling prices of our products.

In 2021, the Chinese government continued to step up its regulatory efforts in the tobacco and cigarette industry. During the reporting period, the State Tobacco Monopoly Administration issued the "Action Plan for Protecting Minors from Harm of Cigarette" (《保護未成年人免受煙侵害"守護成長"專項行動方案》), which specified plans for promoting education, protection and regulations on the subject matter. The Administration has also recently published "E-cigarette Control Measures" (《電子煙管理辦法》), which will become effective in May 2022. The Measures will reinforce e-cigarette control and tighten e-cigarette market regulation in terms of production and quality control, sales requirements and behaviours.

PRC Legislative Control and Awareness of Health Concerns

In recent years, the PRC government has promulgated a series of legislative and regulatory control on the cigarette industry including the proposed Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》), which aims to tighten control of the Chinese cigarette industry and to curb the demand for cigarette consumption due to concerns for public health. Such tightened legislative and regulatory control include regulations limiting smoking in public areas, prohibition on certain types of tobacco advertising, as well as labelling requirements for cigarette packages. In addition, the PRC government promulgated the Opinions on Implementing Healthy China Action (《關於實施健康中國行動的意見》), pursuant to which a number of actions such as smoking control, promotion of mental health and cancer prevention will be introduced. Integrated measures including tariff and price adjustment will be studied to improve the effectiveness of smoking control.

In May 2021, the National Health Commission of the PRC published the "2020 Report on Health Hazards of Smoking in China" (《中國吸煙危害健康報告2020》). The Report showed that the Chinese smoking population had reached 300 million and the condition of the country's smoking control still fell far behind the target specified in the Outline for Healthy China 2030 Initiatives (《健康中國2030規劃綱要》), which aimed to lower the smoking population to 20% of the total population of the country. Therefore, the government is anticipated to continue to promulgate new policies on cigarette and smoking control in the future.

In addition, the global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarette, which in turn would affect the demand for cigarette packaging in China and our sales of cigarette packaging paper.

MANAGEMENT DISCUSSION AND ANALYSIS

Dependence on Cigarette Price and Economic Conditions in China

The slowdown in China's economic growth in recent years has influenced the purchasing power of cigarette consumers, which in turn affected their willingness to spend on cigarettes and therefore, the amount of cigarettes consumption. In fact, according to the National Bureau of Statistics, total cigarette production volume was approximately 2,418.2 billion in 2021, representing a year-on-year growth of 1.3% only. Research from AskCI Consulting indicates that total income of tobacco enterprises above designated size is estimated to reach RMB977.4 billion and RMB995.4 billion in 2020 and 2021, respectively, representing a compound annual growth rate of 1.05% only between 2015 and 2021.

Intense Competition

Despite a large number of cigarette brands in China, "Dual 15 cigarette brands" (the top 15 brands with the highest sales from tier one and 2 cigarettes) contributed nearly 70% of total cigarette sales revenue in China in the first 10 months of 2020. With the country experiencing a slowdown in economy, and the continued regulatory tightening in terms of cigarette controls, further industry consolidation is expected in the future. This creates greater competition between the cigarette brands remaining in the market and increases the competition among cigarette manufacturers. On the other hand, the cigarette packaging paper manufacturing sector remains fragmented over the years. The low entry barrier has also attracted businesses from the upstream, such as raw materials suppliers and cigarette manufacturers to enter the market. According to industry report, there were over 200 industry players in the market, the top five manufacturers accounted for a total market share of approximately 12.6% in 2020 in terms of sales value. In the event that further restructuring or consolidation takes place among cigarette manufacturers in China, the number of cigarette manufacturers and cigarette brands will further reduce, resulting in a more competitive market for cigarette package manufacturers. In addition, if the number of cigarette packaging paper manufacturers continues to rise, these factors will ultimately intensify the competition of the cigarette packaging paper market.

Reliance on Major Customers

For the years ended 31 December 2020 and 2021, revenue from our five largest customers amounted to approximately RMB243.3 million and approximately RMB184.0 million, respectively, which accounted for approximately 42.8% and approximately 37.4% of our total revenue for the respective periods.

In order to reduce such reliance and widen our customer base, the Group plans to proactively expand into new markets such as Sichuan Province, Yunnan Province, Zhejiang Province and Hunan Province of China for easing the risk of concentration on income sources.

Details of the above principal risks and uncertainties and other risks and uncertainties facing the Group are set out in the section headed "Risk Factors" in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY PERFORMANCE INDICATORS ("KPI") WITH THE STRATEGY OF THE GROUP

The Group sets a number of KPIs to support the delivery of its strategies with its performance as below:

Strategy	KPIs	Performance
Maximise value for the Shareholders	Gross profit margin = 20.9% (2020: 15.0%)	The Group managed to maintain stable operational performance during the year with effective cost control measures and continued to expand into new markets.
Improve the Group's liquidity	Cash and cash equivalents = RMB149.8 million (2020: RMB66.5 million) Current ratio = 1.3 (2020: 1.2) Gearing ratio = 27.9% (2020: 53.7%)	The Group adopts a policy to regularly monitor the liquidity requirements of the Group so as to ensure that it maintains sufficient reserves of cash and adequate committed credit facilities from major financial institutions to meet the liquidity requirements of the Group in the short and long term.
Strive for the "zero harm" safety goal	Accident rate = 0% (2020: 0%)	During the year, the Group has put adequate resources and efforts to uphold and improve its safety management system to reduce its risks related to safety issues. The Company successfully obtained the certification in OHSAS 18000 Occupational Health and Safety Assurance System.

FUTURE OUTLOOK

Following a strong recovery in 2021, COVID-19 and the new Omicron and Delta variants continued to challenge people's livelihood. Rising geopolitical tensions, inflation pressure and other factors have posed new threats to the already vulnerable global economy. According to the World Bank's latest Global Economic Prospects report, global growth is forecasted to decelerate substantially to 4.1% in 2022 from 5.5% in 2021, and further slow to 3.2% in 2023.

In China, after a marked slowdown of economic growth in the second half of 2021, the central government announced its "about 5.5%" GDP growth target for 2022. Subsequent to a series of deleveraging and regulatory overhaul in several sectors, the market anticipates that the government will roll out modest, additional stimulus measures to drive the country's economic growth, with a focus to boost domestic consumption. We expect the long-term, stable economic development will continue to offer ample room for our business growth in the future as the overall operating environment will further improve in 2022.

Looking forward, the Group will continue to explore its household paper product and new energy operations. The business diversification has proved successful despite a relatively early stage for the Group as the household paper product and new energy operations have contributed significantly to the Group's revenue and will continue to be our growth driver. On the other hand, the Group will keep a close eye on regulatory changes and cigarette control measures, and endeavour to refine its sales and marketing effort to navigate the evolving cigarette packaging sector. The Group will continue to strive for better results and thus to maximise returns to shareholders and society through its dedication to optimise its businesses.

DIRECTORS' REPORT

The Directors are pleased to present to the shareholders of the Company (the "Shareholders") this report together with the audited consolidated financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of the Company's subsidiaries are set out in note 1 to the consolidated financial statements in this report.

RESULTS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 64 of this report.

SEGMENTAL INFORMATION

The segmental information of the Group are set out in note 6 to the consolidated financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2021 are set out in note 32 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the Group's business, including the likely future developments, principal risks and uncertainties faced by the Group, analysis using key financial performance indicators, are discussed under the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this report. Such discussion forms an integrate part of this report. In addition, the financial risk management objectives and policies of the Group are set out in note 40 to the consolidated financial statements.

FINAL DIVIDEND

The Board proposed not to declare any final dividend for the Year (2020: nil).

DIRECTORS' REPORT

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Thursday, 30 June 2022 (the "2022 AGM"). Notice and circular of the 2022 AGM will be delivered to Shareholders in accordance with the Listing Rules and the articles of association of the Company in due course. For the purpose of determining Shareholders who are entitled to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Wednesday, 22 June 2022 to Thursday, 30 June 2022 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2022 AGM, all completed share transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 21 June 2022.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 37.4% (2020: 42.8%) of the total sales for the Year and the sales attributable to the largest customer included therein accounted for approximately 14.4% of the total sales for the Year (2020: 14%).

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 46.0% (2020: 63.3%) of the total purchases for the Year and the purchase attributable to the largest supplier included therein accounted for approximately 32.9% of the total purchases for the Year (2020: 20.5%).

None of the Directors, their close associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) or any Shareholders to the Company (which, to the best knowledge of the Directors, own more than 5% of the Shares) had any interests in the Group's five largest customers or suppliers.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its customers and enhancing co-operation with its business partners.

The Group maintains a very stable and experienced management team and places great emphasis on training its employees such as by providing induction training for new employees, on-the-job training, team building training and external training. The Group also organized various social activities occasionally to create a harmonious working environment for the employees.

During the Year, the Group maintained good relationship with its customers and generally maintained a high contract renewal rate with the ten largest customers to keep abreast of market development and potential business opportunities.

The Group has maintained stable and long-established business relationships with its major suppliers. We do not foresee any difficulty in procurement nor experienced any production disruption due to shortage of raw materials.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 16 to the consolidated financial statements in this report.

BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group as at 31 December 2021 are set out in note 27 to the consolidated financial statements in this report.

SHARE CAPITAL

The number of issued Shares have increased to 546,092,537 as at 31 December 2021.

Details of the movement of the Company's share capital are set out in note 29 to the consolidated financial statements in this report.

SUMMARY FINANCIAL INFORMATION

A five-year financial summary of the results and the assets and liabilities of the Group is set out on page 132 of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

RELIEF OF TAXATION

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company on the Stock Exchange, by private arrangement or by way of a general offer throughout the Year.

RESERVES

Movements in the reserves of the Company and the Group during the Year are set out in note 30 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively, in this report.

USE OF NET PROCEEDS FROM THE LISTING

The Company listed its Shares on the Stock Exchange on 25 November 2016. Net proceeds from the Listing (after deduction of the underwriting commission and relevant expenses) were approximately HK$42.2 million (equivalent to approximately RMB37.6 million), which has been applied in the manner as disclosed in the Prospectus.

As at 31 December 2021, the net proceeds from the Listing has been utilised as follows:

Use of net proceeds from the Listing	Adjusted use of net proceeds in the manner and proportion as stated in the Prospectus	Approximate % of total actual net proceeds	Actual amount utilised from the Listing Date up to 31 December 2021	Balance as at 31 December 2021	Expected timeline for the remaining use of net proceeds *(Note)* For the year ending 31 December 2022	For the year ending 31 December 2023
	RMB'000		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Purchase and upgrade of production equipment, as well as expansion and maintenance of the production facilities	23,303	62%	3,568	19,735	1,969	17,766
Expansion and upgrade of non-production facilities, including but not limited to warehouse and other supporting facilities	5,638	15%	1,334	4,304	226	4,078
Business development expenditures, including expanding the geographical coverage of sales network and research and development expenditures relating to the purchase of research and development equipment and to future research and development projects	4,886	13%	4,886	–	–	–
Working capital and general corporate purposes	3,758	10%	3,758	–	–	–
	37,585	100%	13,546	24,039	2,195	21,844

Note: The expected timeline for utilising the remaining net proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

As at 31 December 2021, unutilised proceeds amounted to approximately HK$29.5 million (equivalent to approximately RMB24.0 million), which will be invested in production plant, equipment upgrade and technique development. The unutilised portion of the net proceeds have been placed as interest bearing deposits with licensed banks as restricted cash in the PRC. As at the date of this report, the Directors do not anticipate any change to the plan as to use of net proceeds.

DIRECTORS' REPORT

CONNECTED AND RELATED PARTY TRANSACTIONS

During the Year, there was no connected transaction or continuing connected transaction of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules. Material related party transactions entered into by the Group during the Year are set out in note 36 to the consolidated financial statements in this report. These related party transactions did not constitute connected transactions or continuing connected transactions within the meaning of the Listing Rules.

DIRECTORS

As at the date of this report, the Directors are:

Executive Directors
Mr. Chen Shuming *(Chairman)*
Mr. Chen Xiaolong *(Chief Executive Officer)*
Mr. Hu Enfeng
Ms. Wu Cheuk Yan
Mr. Zhang Shihua
Ms. Chen Xiaoyan

Independent non-executive Directors
Mr. Chen Hua
Mr. Zhao Zhendong
Mr. Chin Chi Ho Stanley

In accordance with article 112 of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to article 108 of the Articles, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but no less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be (i) those who wishes to retire and not to offer himself for election; (ii) those who have not been subject to retirement by rotation in the three years preceding the annual general meeting; and (iii) those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election.

In accordance with the above provisions of the Articles, Mr. Chen Shuming, Mr. Chen Xiaolong and Mr. Zhang Shihua will retire by rotation at the 2022 AGM and will offer themselves for re-election at the 2022 AGM.

DIRECTORS' REPORT

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from their respective date of appointment, namely 20 November 2018, 10 December 2018, 27 June 2019 or 24 June 2020. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from their respective date of appointment, namely 20 November 2018 or 1 February 2021. The term of service shall be renewed and extended automatically by three years upon the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

Save as disclosed above, none of the Directors has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are set out on pages 54 to 57 of this report.

EMOLUMENT POLICY

The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees (including the Directors) with reference to individual performance and current market rate.

The remuneration committee of the Board is responsible for making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration, having regard to market competitiveness, individual performance and achievement. None of the Directors will determine their own remuneration.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in notes 11 and 12 to the consolidated financial statements, respectively.

DIRECTORS' INTERESTS IN CONTRACTS

Save and except for those disclosed under the paragraph headed "Connected and Related Party Transactions" above, no transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or any entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time for the Year.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed for the Year.

DIRECTORS' INDEMNITIES AND INSURANCE

Subject to the applicable laws, every Director shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto pursuant to the Articles. Such provisions were in force during the course of the Year and remained in force as of the date of this report.

RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

Details of the employer's costs charged to the consolidated profit or loss for the Year and the retirement benefit scheme contributions of the Group are set out in note 10 to the consolidated financial statements in this report.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the Company's distributable reserves as at 31 December 2021 amounted to approximately RMB144.4 million.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2021, the following Directors or chief executive of the Company had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules:

Interests in the Company

Name	Nature of Interest	Number of Shares held (long position)	Approximate percentage of interests
Mr. Chen Shuming *(Note)* ("Mr. Chen")	Interest in a controlled corporation	350,000,000	64.09%

Note: Mr. Chen beneficially owns 100% of the issued share capital of Champion Alliance International Corporation, a company incorporated in the British Virgin Islands with limited liability. Therefore, Mr. Chen is deemed, or taken to be, interested in the same number of the Shares held by Champion Alliance International Corporation for the purpose of the SFO.

Interests in Associated Corporation of the Company

As at 31 December 2021, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Name	Name of associated corporation	Capacity	Number of Shares held	Approximate percentage of interests
Mr. Chen	Champion Alliance International Corporation	Beneficial owner	1	100%

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to the Directors, as at 31 December 2021, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or shorts positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

Name	Capacity	Total number of Shares held (long position)	Approximate percentage of interests
Champion Alliance International Corporation	Beneficial owner *(Note 1)*	350,000,000	64.09%
Ms. Chen Xiuchun	Interest of spouse *(Note 2)*	350,000,000	64.09%
CM Asset Management (Hongkong) Company Limited	Investment manager	45,704,000	8.37%
Shareholder Value Fund	Beneficial owner	45,704,000	8.37%

Notes:

1. These Shares were beneficially owned by Champion Alliance International Corporation, which is wholly-owned by Mr. Chen.

2. Ms. Chen Xiuchun is the spouse of Mr. Chen, who in turn beneficially owns the entire issued share capital of Champion Alliance International Corporation, and is deemed to be interested in all the Shares in which Mr. Chen is interested pursuant to the SFO.

Save as disclosed above, as at 31 December 2021, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was conditionally adopted by the written resolutions of all Shareholders passed on 3 November 2016. As of the date of this report, no option had been granted, agreed to be granted, exercised, cancelled or lapsed under the Scheme.

DIRECTORS' REPORT

Purpose of the Scheme

The purpose of the Scheme is to enable the Group to grant options to the eligible participants as incentive or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group or any entity in which any member of the Group holds any equity interest (the "Invested Entity").

Qualifying Participants

Subject to the provisions in the Scheme, the Board shall be entitled but shall not be bound at any time within a period of 10 years commencing from the date of adoption of the Scheme to make an offer to any person belonging to the following classes:

(i) any employee (whether full time or part time, including the Directors (including any non-executive Director and independent non-executive Director)), any of its subsidiaries or any Invested Entity;

(ii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iii) any customer of any member of the Group or any Invested Entity;

(iv) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the Directors has contributed or will contribute to the growth and development of the Group; and

(vii) any other group or class of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

Maximum Number of the Shares

The maximum number of the Shares in respect of which options may be granted under the Scheme and under any other share option schemes of the Company (excluding, for this purpose, Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Scheme or any other share option scheme of the Company) must not in aggregate exceed 10% of the total number of Shares in issue as at Listing Date, being 546,092,537 Shares. The Company may, subject to the issue of a circular, the shareholders' approval in general meeting and/or such other requirements prescribed under the Listing Rules, refresh this limit at any time to 10% of the Shares in issue as at the date of the shareholders' approval and/or grant options beyond the 10% limit to eligible participants specifically identified by the Board. The above is subject to the condition that the maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time.

Maximum Entitlement of Each Eligible Participant

The total number of the Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular, the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules.

Time of Acceptance and Exercise of an Option

The options granted under the Scheme may remain open for acceptance for a period of up to 21 days from the date on which the options are offered to eligible participants. Upon acceptance of the option, the eligible person shall pay HK$1 to the Company as consideration for the grant.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Scheme; and (ii) the date falling 10 years from the offer date of that option.

Subscription Price for Shares

The subscription price in respect of any option granted under the Scheme shall be at the discretion of the Directors, save that such price shall not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for trade in one or more board lots of the Shares on the offer date;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and

(iii) the nominal value of a Share.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, none of the Directors or any of their respective associates had any interest in a business which competes or is likely compete, either directly or indirectly, with the business of the Group.

CONTROLLING SHAREHOLDERS' INTEREST

There were no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries nor any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code in Appendix 14 of the Listing Rules during the Year.

As a publicly listed company, the Directors recognize the importance of good corporate governance standards and internal procedures so as to achieve effective accountability and enhance Shareholders' value. Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of the environment and communities in which it operates. The Company sees sustainable development as the key for a corporation to succeed and therefore, it aims to seek a win-win situation for the Group, society and environment by balancing between the creation of economic value and the impact on the environment.

In order to meet the requirements of the PRC government and clients and establish a positive corporate image, the Group has formulated environmental protection policies and guidelines to enhance its environmental protection management, including forming an environmental protection committee to oversee and supervise our environmental protection management and to monitor the implementation of environmental protection policies and guidelines.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group and its activities are subject to requirements under various laws. These include, among others, the Environmental Protection Law of the People's Republic of China《中華人民共和國環境保護法》, Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise《中華人民共和國環境噪聲污染防治法》, Law of the People's Republic of China on Appraising of Environment Impacts《中華人民共和國環境影響評價法》, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes《中華人民共和國固體廢物污染環境防治法》and Decision of the State Council on Several Issues Concerning Environmental Protection《國務院關於環境保護若干問題的決定》. The Company seeks to ensure compliance with these requirements through various measures such as internal controls, training and oversight of various business units at different levels of the Group. The Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

During the Year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws, rules and regulations by the Group that have a significant impact on the operations of the Group.

AUDIT COMMITTEE

The Company established the audit committee of the Board on 3 November 2016 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and provision C3.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Chin Chi Ho Stanley (as chairman), Mr. Chen Hua and Mr. Zhao Zhendong.

The consolidated financial statements of the Group for the Year together with the notes attached thereto have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group comply with the applicable accounting standards, the Listing Rules and that adequate disclosure has been made.

DONATIONS

No charitable donations were made by the Group during the Year.

CONFIRMATION OF INDEPENDENCE

The Company has received from the independent non-executive Directors confirmations of independence (including an annual confirmation from each of the independent non-executive Directors) pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent of the Company under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at 31 December 2021 and up to the date of this report.

IMPORTANT EVENT AFTER THE REPORTING PERIOD

There was no material subsequent event after 31 December 2021 up to the date of this report which requires disclosure.

AUDITOR

The financial statements for the years ended 2018 were audited by PricewaterhouseCoopers and the financial statements for the year ended 31 December 2019 were audited by Ernst & Young.

During the year under review, the Board, by a written resolution of the Company passed on 5 November 2020, appointed BDO Limited as the Company's auditor to fill the casual vacancy following the resignation of Ernst & Young and to hold office until the conclusion of the forthcoming annual general meeting of the Company. Details of the change of auditor are, among other things, set out in the Company's announcement dated 5 November 2020.

The financial statements of the Company for the year ended 31 December 2021 have been audited by BDO Limited who will hold office until the conclusion of the next AGM.

An ordinary resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the auditor of the Company.

On behalf of the Board
Chen Shuming
Chairman and executive Director

Hong Kong, 29 April 2022

CORPORATE GOVERNANCE REPORT

OVERVIEW

As a publicly listed company, the Directors recognize the importance of good corporate governance standards and internal procedures so as to achieve effective accountability and enhance Shareholders' value. The Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") on terms no less exacting than those set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, each of them confirmed that he or she has complied in full with the Model Code for the Year.

THE BOARD OF DIRECTORS

The Board consists of nine Directors, comprising six executive Directors and three independent non-executive Directors. The main functions of the Board include the approval of the Group's overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of the Company as well as overseeing the corporate governance functions of the Company.

The Board comprises the following Directors:

Executive Directors
Mr. Chen Shuming *(Chairman)*
Mr. Chen Xiaolong *(Chief Executive Officer)*
Mr. Hu Enfeng
Ms. Wu Cheuk Yan
Mr. Zhang Shihua
Ms. Chen Xiaoyan

Independent non-executive Directors
Mr. Chen Hua
Mr. Zhao Zhendong
Mr. Chin Chi Ho Stanley

The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

In accordance with the above provisions of the Articles, Mr. Chen Shuming, Mr. Chen Xiaolong and Mr. Zhang Shihua will retire by rotation at the 2022 AGM and will offer themselves for re-election at the 2022 AGM.

Ms. Chen Xiaoyan is the spouse of Mr. Chen Xiaolong and also the daughter-in-law of Mr. Chen Shuming. Save as disclosed, there are no financial, business, family or other material relationships among the Directors. The biographical details of the Directors are set out in the section entitled "Biographies of Directors and Senior Management" in this report.

In compliance with Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors representing one-third of the Board. Each of the independent non-executive Directors has confirmed by annual confirmation that he has complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Company considers that all the three independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgement. The Directors are experienced in a range of corporate and industry expertise. Amongst the three independent non-executive Directors, Mr. Chin Chi Ho Stanley has the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions, funding and performance, as well as corporate governance practices. The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals must be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board is responsible for performing the corporate governance functions set out in provision D.3.1 of the CG Code. As at the date of this report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of Directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct, and (e) the Company's compliance with the CG Code disclosures requirements.

The Board has delegated various responsibilities to the Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") of the Board (collectively, the "Board Committees"). Further details of the Board Committees are set out below.

CONTINUOUS PROFESSIONAL DEVELOPMENT

All newly appointed Directors will receive comprehensive, formal and tailored induction on the first occasion of their appointment so as to ensure that they have appropriate understanding of the business of the Company and the obligation and responsibility of being a Director. Directors' training is an ongoing process.

Pursuant to the provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

CORPORATE GOVERNANCE REPORT

During the Year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills in relation to their contribution to the Board. The individual training record of each Director received during the Year is summarised below:

Name of Directors	Attending training course(s)/ reading materials
Mr. Chen Shuming	✓
Mr. Chen Xiaolong	✓
Mr. Hu Enfeng	✓
Ms. Wu Cheuk Yan	✓
Mr. Zhang Shihua	✓
Ms. Chen Xiaoyan	✓
Mr. Chen Hua	✓
Mr. Zhao Zhendong	✓
Mr. Chin Chi Ho Stanley (appointed on 1 February 2021)	✓
Mr. Chan Yee Ping Michael (resigned on 1 February 2021)	✓

BOARD MEETINGS AND DIRECTORS' ATTENDANCE

Provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication. The Board will schedule to have at least four regular meetings in a year. Other board meetings will be held if necessary.

During the Year, the Board convened 10 Board meetings and the Company convened an annual general meeting ("2021 AGM"). The attendance records of the respective Directors are set out below:

	Attendance/Number of meetings	
	Board meetings	2021 AGM
Mr. Chen Shuming	10/10	1/1
Mr. Chen Xiaolong	10/10	1/1
Mr. Hu Enfeng	10/10	1/1
Ms. Wu Cheuk Yan (appointed on 24 June 2020)	10/10	1/1
Mr. Zhang Shihua	10/10	1/1
Ms. Chen Xiaoyan	10/10	1/1
Mr. Chen Hua	10/10	1/1
Mr. Zhao Zhendong	10/10	1/1
Mr. Chin Chi Ho Stanley (appointed on 1 February 2021)	10/10	1/1
Mr. Chan Yee Ping Michael (resigned on 1 February 2021)	2/10	0/1

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Director has entered into a service agreement with the Company for an initial fixed term of three years commencing from 20 November 2018, 10 December 2018, 27 June 2019 or 24 June 2020. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the 20 November 2018 or 1 February 2021. The term of service shall be renewed and extended automatically by three years upon the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party in accordance with the terms thereto.

Save as disclosed above, none of the Directors has or is proposed to have an unexpired contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Provision A.2.1 of the CG Code stipulates that the roles of the chairman and the chief executive officer should be separate and not be performed by the same individual. During the Year, Mr. Chen Shuming is the chairman who is primarily responsible for the strategic planning and formulation of business strategies of the Group but he would not be involved in the day-to-day management of the Group's business. Mr. Chen Xiaolong is the chief executive officer of the Company who is primarily responsible for the strategic planning and overall management and supervision of operations of the Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars regarding Directors' remuneration and the five highest paid individuals as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 11 and 12 to the consolidated financial statements in this report.

BOARD COMMITTEES

The Board has established (i) Audit Committee; (ii) Remuneration Committee; and (iii) Nomination Committee with defined terms of reference. The terms of reference of the board Committees, which explain their respective role and the authority delegated to them by the Board, are available on the websites of the Company and the Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under appropriate circumstances, at the Company's expenses.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company has established the Audit Committee on 3 November 2016 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and provision C3.3 of the CG Code set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Chin Chi Ho Stanley (as chairman), Mr. Chen Hua and Mr. Zhao Zhendong. The primary duties of the Audit Committee are, among others, to make recommendation to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, oversee the financial reporting process, internal control, risk management systems and audit process and perform other duties and responsibilities assigned by the Board.

The members of the Audit Committee should meet at least twice a year. During the Year, the Audit Committee had held 2 meetings, during which the Audit Committee had reviewed, inter alia, the external auditor's statutory audit scope for the Year and their independence; the consolidated financial statements of the Group for the year ended 31 December 2020 and for the six months ended 30 June 2021, including the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group.

The attendance records of the respective members of the Audit Committee are set out below:

	Number of meetings held during the Year
Mr. Chin Chi Ho Stanley *(Chairman)* (appointed on 1 February 2021)	2/2
Mr. Chan Yee Ping Michael *(Chairman)* (resigned on 1 February 2021)	0/2
Mr. Chen Hua	2/2
Mr. Zhao Zhendong	2/2

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 3 November 2016 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and provision B1.2 of the CG Code. The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Chen Hua (as chairman) and Mr. Zhao Zhendong, and one executive Director, Mr. Chen Shuming. The primary duties of the Remuneration Committee are, among others, to review and approve the management's remuneration proposals, make recommendations to the Board on the remuneration packages of the Directors and senior management and ensure none of the Directors determine their own remuneration.

The members of the Remuneration Committee should meet at least once a year. During the Year, the Remuneration Committee had held 2 meetings, during which the Remuneration Committee had reviewed, inter alia, the remuneration packages for individual executive Directors and senior management and had made recommendations to the Board. The attendance records of the respective members of the Remuneration Committee are set out below:

	Number of meetings held during the Year
Mr. Chen Hua *(Chairman)*	2/2
Mr. Chen Shuming	2/2
Mr. Zhao Zhendong	2/2

NOMINATION COMMITTEE

The Company has established the Nomination Committee on 3 November 2016 with written terms of reference in compliance with provision A5.2 of the CG Code. The Nomination Committee consists of one executive Director, Mr. Chen Shuming (as chairman) and two independent non-executive Directors, namely Mr. Zhao Zhendong and Mr. Chin Chi Ho Stanley. The primary duties of the nomination committee are, among others, to review the structure, size and composition of the Board and, make recommendations on the selection of individuals nominated for directorships and assess the independence of independent non-executive Director. A summary of the nomination policy adopted by the Board is set out below.

Nomination Criteria

When making recommendations regarding the appointment of any proposed candidate to the Board or reappointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

(a) reputation for integrity;

(b) accomplishment, experience and reputation in the business and other relevant sectors relate to the Company and/or its subsidiaries;

(c) commitment in respect of sufficient time and attention to the Company's business;

(d) diversity in all aspects, including but not limited to gender, age, cultural/educational and professional background, skills, knowledge and experience;

(e) the ability to assist and support management and make significant contributions to the Company's success;

(f) compliance with the criteria of independence as prescribed in the Listing Rules for the appointment of an independent non-executive Director; and

(g) any other relevant factors as may be determined by the Nomination Committee from time to time.

Nomination Procedures

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

Appointment of New and Replacement Directors

(i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, Shareholders, management and advisors of the Company and external executive search firms.

(ii) Upon compilation and interview of the list of potential candidates, the relevant Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

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

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

Any member of the Nomination Committee may call for a meeting anytime when it is necessary. During the Year, the Nomination Committee had held two meetings, during which the Nomination Committee had reviewed, inter alia, the structure, size and composition of the Board and had assessed the independence of the independent non-executive Directors. The attendance records of the respective members of the Nomination Committee are set out below:

	Number of meetings held during the Year
Mr. Chen Shuming *(Chairman)*	2/2
Mr. Zhao Zhendong	2/2
Mr. Chin Chi Ho Stanley (appointed on 1 February 2021)	2/2
Mr. Chan Yee Ping Michael (resigned on 1 February 2021)	0/2

BOARD DIVERSITY POLICY

The Company recognizes and embraces the benefits of having a diversified Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage and believes that greater diversity of directors is good for corporate governance and is committed:

- To attract and retain candidate(s) for Board with a combination of competencies from the widest possible pool of available talents.
- To maintain a Board with diversity perspectives at all levels, in particular, those are aligning with the Company's strategy and objectives.
- To assess regularly the diversity profile of the Board and, where applicable, senior management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any.
- To ensure that the selection and nomination of Board positions are appropriately structured so that a diverse range of candidates can be considered.
- To set up appropriate procedures for development of a broader and more diverse pool of skilled and experienced senior management that would be prepared for Board positions.
- To ensure that changes to the Board's composition can be managed without undue disruption.

The Board therefore adopted the board diversity policy which aims to build and maintain a Board with a diversity of directors, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender. These differences will be taken into account in determining the optimum composition of the Board. The Nomination Committee will discuss the measurable objectives for implementing diversity on the Board from time to time and recommend them to the Board for adoption. The Nomination Committee will report annually on the composition of the Board under diversified perspectives, and monitor the implementation of this policy to ensure the effectiveness of this policy. It will also discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

1. at least one-third of the members of the Board shall be independent non-executive Directors; and
2. at least one of the members of the Board shall have obtained accounting or other professional qualifications.

The Board has achieved the measurable objectives in the board diversity policy.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The financial statements are prepared in accordance with the Hong Kong Financial Reporting Standards. The statement of the external auditor of the Company about its responsibilities on the financial statements is set out in the independent auditor's report contained in this report.

EXTERNAL AUDITOR'S REMUNERATION

The Company has engaged BDO Limited as its external auditor for the Year until the conclusion of the forthcoming annual general meeting. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. During the Year, the fees paid/payable to BDO Limited in respect of its services relating to the audit of the consolidated financial statements of the Company for the Year was RMB1.3 million.

DIVIDEND POLICY

Pursuant to the dividend policy adopted by the Board, the Company may declare and distribute dividends to the Shareholders, provided that the Group records a distributable profit under the laws of the Cayman Island and that the declaration and distribution of dividends does not affect the normal operations of the Group. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia: (i) the general financial condition of the Group; (ii) capital and debt level of the Group; (iii) future cash requirements and availability for business operations, business strategies and future development needs; (iv) any restrictions on payment of dividends that may be imposed by the Group's lenders; (v) the general market conditions; and (vi) any other factors that the Board deems appropriate. The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the articles of association of the Company. Any final dividend for a financial year will be subject to Shareholders' approval. The dividend policy will continue to be reviewed from time to time and there can be no assurance that a dividend will be proposed or declared in any specific periods.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the risk management and internal control of the Group and for reviewing their effectiveness in order to safeguard the Shareholders' investment and the Group's assets. Appropriate policies and procedures have been designed to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations.

Procedures have been set up for safeguarding assets against improper use or disposal, controlling over capital expenditure, maintaining proper financial and accounting records and ensuring the reliability of financial information used for business and publication. Key risks that may impact on the Group's performance are appropriately identified and managed. Qualified management of the Group maintains and monitors the risk management and internal control systems on an ongoing basis and reports to the Audit Committee at regular meetings. The Board has conducted its annual review of the effectiveness of the risk management and internal control system of the Group, is reasonably satisfied that the Group has fully complied with the CG Code in respect of risk management and internal controls during the Year and considers said systems effective and adequate. The systems and internal control can only provide reasonable and not absolute assurance against material misstatement or loss, rather than eliminate the risks of failure to achieve business objectives.

The principal risks and uncertainties for the Group can be found in the section entitled "Management Discussion and Analysis" and note 40 to the consolidated financial statements in this report.

COMPANY SECRETARY

The company secretary of the Company is Ms. Leung Mei King, whose biography details are set out in the section headed "Biographies of Directors and Senior Management" in this report.

Ms. Leung has been informed of the requirement of the Rules 3.28 and 3.29 of the Listing Rules, and she confirmed that she had attained no less than 15 hours of relevant professional training during the Year.

ALTERATIONS TO THE CONSTITUTIONAL DOCUMENTS

There has been no change in the Company's constitutional documents during the Year. The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

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

Participation at General Meetings

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 ("EGM"). The 2021 AGM was held on 1 June 2021. The 2022 AGM is scheduled to be held on 30 June 2022. A circular containing among other things, further information relating to the 2022 AGM will be dispatched to the Shareholders in accordance with the Articles and the Listing Rules.

Right to put Enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company at Room A, 17th Floor, Capitol Centre Tower 2, 28 Jardine's Crescent, Causeway Bay, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

CORPORATE GOVERNANCE REPORT

Convening of EGM and Putting Forward Proposals at General Meetings

In accordance with the article 64 of the Articles, the Board may whenever it thinks fit convene EGMs. EGMs shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company at Room A, 17th Floor, Capitol Centre Tower 2, 28 Jardine's Crescent, Causeway Bay, Hong Kong for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (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.

Procedures for Nomination of Director

In accordance with the article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Company's principal office in Hong Kong at Room A, 17th Floor, Capitol Centre Tower 2, 28 Jardine's Crescent, Causeway Bay, Hong Kong or at the Hong Kong branch share registrar of the Company at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. The period for lodgement of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

REPORTING SCOPE, MATERIALITY AND PERIOD

This Environmental, Social and Governance ("ESG") report ("ESG Report") is prepared by the Company. This ESG Report is published in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 to the Listing Rules and the "comply or explain" provisions contained therein.

Reporting Principle and Scope

This ESG Report covers our strategies, accomplishments and ongoing measures to enhance our ESG performance, while identifying ESG risks and challenges that induce significant impacts to our operations and are of the greatest interest or concern to stakeholders for the period from 1 January to 31 December 2021. In this regard, this ESG report contains qualitative and quantitative information about our approaches, initiatives and priorities in achieving our ESG objectives and managing relevant risks.

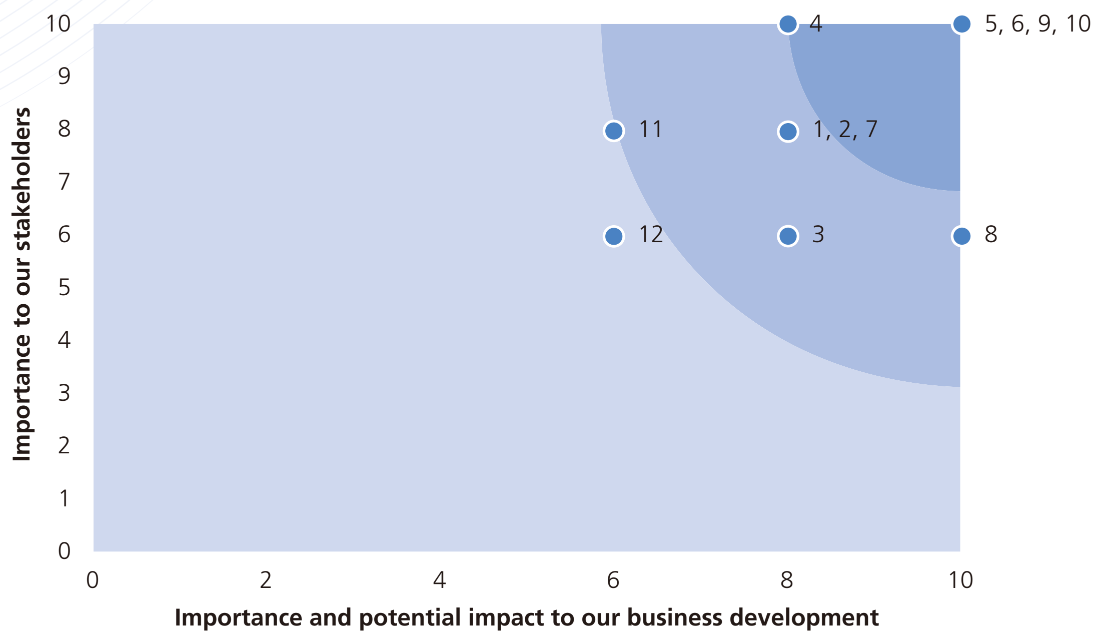
This qualitative and quantitative information covers mainly the Group's principal business operations of (i) manufacture of metallised packaging paper for cigarette package manufacturers, (ii) supply of new energy (steam for industrial use, household heating, and electricity supply), and (iii) household paper products during the Reporting Period. These businesses are mainly operated in the Group's headquarters and its self-owned production facility for cigarette packaging products in Yichang City, Hubei Province, the plants and offices in Shandong Province (for the operation of new energy supply and household paper products), and Hong Kong office. This ESG Report was prepared by the management and employees of the Group. All information contained herein comes from official documents or statistical reports of the Group. This report has been reviewed and approved by the Board of Directors.

Regarding the corporate governance structure of the Group and other relevant information, please refer to the Corporate Governance Report on page 27 to 37 in this annual report.

Materiality Assessment

This report serves as a key channel to communicate our ESG approaches with our stakeholders. Hence, we have conducted a materiality assessment which examines the importance of various issues to our stakeholders as well as the potential impact to our business development. The findings and results of the materiality assessment were set out below in the materiality matrix:

		Stakeholders	Company
1	Employee development	8	8
2	Reward to employee	8	8
3	Employee rights and equal opportunities	6	8
4	Occupational health and safety	10	8
5	Corporate governance	10	10
6	Product and service quality	10	10
7	Supply chain management	8	8
8	Financial performance	6	10
9	Customer privacy/intellectual property rights	10	10
10	Business ethics and anti-corruption	10	10
11	Environmental policy and impact	8	6
12	Community investment	6	6



- Issues that are of most critical and material to our stakeholders and with greatest impact on our business success
- Issues that are important to both our stakeholders and our business development
- Issues that are relatively less important to both our stakeholders and our business development

Stakeholder Groups, Their Concerns and How We Engage with Them

We understand that stakeholder engagement plays a pivotal role to our continuous effort in improving our ESG standard. Therefore, we have built and maintained for our shareholders, customers, employees, suppliers, other stakeholders and all interested parties various communication channels. We also endeavour to provide our stakeholders with clear information about our approaches to business operation and ESG issues. These include, but are not limit to, statutory announcements, circulars, financial reports, shareholders' meetings, corporate websites and electronic correspondence.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholder groups	Key topics of interest	How we engage
Employees	Labour rights; Employee engagement; Promotion and development opportunities; Health and safety	Staff newsletter; Staff training; Staff appraisal and survey
Shareholders and investors	Financial performance; Corporate governance; Compliance and ESG performance	Results announcement and financial reports; Shareholders' meeting/investor meeting
Customers	Quality and pricing of services and products; Protection of data privacy and intellectual property	After-sales survey and follow-up communication; Promotional and marketing collaterals
Suppliers/business partners	Responsible supply chains; Business continuity and conduct; Product specifications and quality expectations	Supplier visits and meeting; Feedback on service and products
Governments and regulators	Governance; Relevant regulated information; Labour rights; Economic contributions; Environmental impact and compliance	Financial reports; Disclosure in accordance with relevant regulations
Non-government organisations and local communities	Environmental protection commitment; Community support and engagement	Meeting and call with relevant organisations

We value opinions on the Group's approaches on the ESG aspects upon reading the ESG Report. Please share with us via:

Postal address: Room A, 17th Floor, Capitol Centre Tower 2, 28 Jardine's Crescent, Causeway Bay, Hong Kong
Tel No.: (852) 2327 8009
Fax No.: (852) 2327 8090

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CHAMPIONING SUSTAINABILITY AND STRENGTHENING ESG GOVERNANCE

Looking back, year 2021 marked another turbulent year for people and businesses across the world. As a company, we continue to pursue business excellence and maximise returns. The outbreak of the COVID-19 disease in 2020 has brought unprecedented challenges to people's livelihood and the global economy. Despite the pandemic being largely contained in the PRC in 2021, it has already changed how we live as an individual and how we operate as a company.

The pandemic has propelled governments across the world to review their anti-pandemic strategies while businesses are urged to evolve to address COVID-19 challenges and strengthen their relevant ESG governance to cope with complications of the pandemic, while forcing business leaders to re-examine what sustainability means to a company.

In light of the recent resurgence and the rapid spread of Omicron variant in Hong Kong and Mainland China, we have stepped up to help our employees, customers and communities in difficult times to ensure the safety of our employees, while offering prompt support to our customers and the communities in which we operate. We work with our employees, suppliers and customers to cope with COVID-19's impact on individuals, families and economies as we reinforced our commitment to environment and society. Some of our key actions included adopting work-from-home policy, implementing stricter workplace hygiene protocols and so on.

Throughout the years, sustainability has been central to our business. While we have a well-defined governance framework to ensure board-level oversight and management of our ESG priorities across the Group, we are also building on these strong foundations to accelerate progress towards a sustainable future and create a better tomorrow for all our stakeholders. We engage with the communities in which we operate and involve our employees in the process to improve our sustainability efforts, with an aim to progress our ESG strategy from the traditional risk mitigation approach to value creation for all our stakeholders.

REPORTING ON ENVIRONMENTAL ASPECTS

We operate an environmental management system that is based on ISO14001-2015 certification and governed by a Safety and Environmental Protection Department since 2018. The department is responsible for reinforcing the Group's environmental control, designing relevant system and providing environmental training for employees. We have a robust system in place to manage our environmental risks and emission levels to ensure that we comply with all relevant government requirements. The Group has made continuous efforts to adopt policies, including forming an environmental protection committee to oversee and supervise our environmental protection management, help improve our environmental stewardship.

In addition, we believe that it is critical that our employees share the same values to protect our environment. Hence, we have stepped up our efforts in promoting environmental awareness among our employees. We often issue various notices to remind them of our environmental protection measures and provide updates and information about environmental issues and the Group's latest environmental initiatives. We have also codified and drawn up a set of safety and environmental protection manual for employees to heighten their awareness and arrange relevant training.

During the Reporting Period, there was no incident of non-compliance with relevant environmental laws and regulations relating to air and greenhouse gas emissions, discharge into water and land, and generation of hazardous and non-hazardous waste that have a significant impact on the Group. The Group also confirmed that during the Reporting Period, our business operation had not encountered any punishment by respective governmental authorities due to violation of the above laws and regulations.

Emission and Resource Stewardship

During the Reporting Period, the Group has complied with relevant laws and regulations that have significant impacts on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. These laws and regulations include, but not limited to, the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境噪聲污染防治法》), Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》), Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), PRC Law on Air Pollution Control (《中華人民共和國大氣污染防治法》) and Decision of the State Council on Several Issues Concerning Environmental Protection (《國務院關於環境保護若干問題的決定》).

Regarding use of resources and natural resources, we implement various measures to reduce wastage and consumption levels in our headquarters' production facility and offices. We provide our employees with necessary training and information to raise their awareness, while upgrading our production process and facilities with better technology to improve our energy efficiency and reduce fuel and electricity consumption.

The global pandemic posed new challenges to access to clean water and raise people's awareness of water stewardship. The Group realise the importance of water as a scarce resource and we are committed to promoting water conservation. We call on our factory workers and employees from time to time to enhance water efficiency and actively manage consumption of potable water or water for production use.

Greenhouse Gas and Exhaust Gas Emissions

A stringent production control system is critical to achieve our goals to minimising direct and indirect greenhouse gas emissions and reducing energy consumption. Ongoing measures such as enhancing production and energy efficiency, upgrading production technology, adopting green building design are under regular reviews to ensure that the Group operates in a high environmental level.

Our operations in Shandong Province have obtained the relevant permit for pollutant emission, including sulfur oxide, nitrogen oxide, smoke and other industrial exhaust gas and strictly adopts an ultra-low emission standard, whereby we ensure that our exhaust gas emissions, however minimal, are within the maximum limit.

Against the backdrop of the unprecedented global pandemic, the access to clean water and water stewardship is getting more important than ever. Water that we consume is mainly tap water. The Group considers water resources to be valuable and we are committed to promoting the concept of water conservation. We call on our factory workers from time to time to enhance water efficiency. In offices, we put up signs to remind staff to conserve water and actively manage drinking water consumption.

In addition, we pay close attention to the environmental risks along our supply chain as we attach the same importance to the production environment of our suppliers and business partners. Through ways such as daily communication and site visit, we gain a better understanding and assurance of their environmental control levels. Suitable arrangements are made for the delivery of raw materials from our suppliers and delivery of products to our customers, including optimising travelling routes and regular check of vehicles, so as to minimise exhaust gas emissions produced during the delivery process.

Sewage Discharge

Our operations in Hubei Province and Shandong Province obtained the necessary wastewater and pollutant discharge permit. We ensure that our domestic and industrial wastewater produced during operation is handled properly by wastewater processing facilities including grease trap and septic tank at our production sites or by qualified subcontractors before being discharged to the municipal wastewater system.

All these procedures meet the requirements stipulated by relevant national laws and regulations, including the PRC Law on the Prevention and Treatment of Water Pollution (《中華人民共和國水污染防治法》). Industrial wastewater produced in Shandong manufacturing base is reused without discharging.

Noise Control

Our operations, including the production of cigarette packaging products, create certain mechanical noise from the use of machinery and equipment in the process, and automobile aerodynamic noise from our vehicle fleet. To minimise such noise pollutions, we perform regular maintenance and repair works for our machinery and equipment to ensure that they function normally, or replace them with new ones or more technologically advanced models. We also make sure that these machinery and equipment only operate during hours allowed by relevant regulations.

Waste Treatment and Reduction

Our approach to minimising our environmental impact created by operational waste stems from the idea of waste reduction and proper treatment.

We adopt the well-known concept of "3R" as we intend to reduce, reuse and recycle waste from our products, packaging and production process through improving relevant manufacturing processes. We classify our operational waste by types and reuse paper and other reusable waste when feasible. Scrap metal, toner cartridges and ink cartridges, large water bottles and other non-reusable waste are collected and handled by qualified subcontractors, or are disposed of at area as designated by the property management office of the office premises.

We regularly monitor our resource consumption level and review our procurement and operating procedures to avoid unnecessary wastage. Our philosophy is to gradually put reusable value to ocean waste and landfill materials, and raise awareness of environmental protection and responsible disposal of waste, with a view to making contribution to waste reduction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, the outbreak of COVID-19 also propelled digital transformation of operation and create the real possibilities of a "paperless future", where new digital tools and platforms are now available to employees and enable them to perform their jobs more efficiently without a large consumption of paper.

		Quantity	
Emissions	**Unit**	**2021**	2020
Greenhouse gas			
– Scope 1 – direct emission fuel consumption	Tonne	**N/A**	N/A
– Scope 2 – indirect emission electricity consumption	(CO_2 equivalents)	**4,874.7**	4,779.1
Other emissions			
– Wastewater		**23,280**	24,000
– Hazardous wastes	tonne	**25**	27
– Non-hazardous wastes		**16**	17

Resource Consumption Data:

		Quantity	
Consumption	**Unit**	**2021**	2020
Water	Tonne	**43,260**	42,000
Electricity	kWh	**5,407,935**	5,301,897

Making Environmental-friendly Products

Making products that are more environmental-friendly is important to our journey to reduce waste and our carbon footprint. Therefore, we constantly examine to increase recycled content in our packaging and products, explore raw materials that are easily accessible and create lower environmental impact from sourcing and using of them, such as materials that are reusable or degradable.

The PRC government has encouraged the procurement of transfer metallised papers in cigarette packaging as one of the initiatives regarding environmental protection. It is because transfer metallised papers are more environmentally friendly than laminated metallised papers as the plastic transparent layer of the metallised film for transfer metallised paper can be removed after lamination and is therefore recyclable. We have strong research and development capabilities in the area of high-end environmentally friendly metallised packaging paper.

Our product research and development team for the cigarette packaging operation has extensive experience in metallised packaging paper production and it is committed to improving technology to meet the environmental standards. Moreover, we have developed proprietary technologies for producing high-end environmentally friendly metallised cigarette packaging paper with enhanced anti-counterfeiting features primarily for the external packaging needs for mid to high-end cigarette brands. We will make significant investments in further improving our research and development capabilities, in order to contribute to the environmental development of the industry.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, our team of household paper product operation boasts extensive professional experience and endeavours to conduct research on measures to protect natural resources. These initiatives include monitoring of and improving traceability of supply source and avoiding over-consumption and preventing acts that threaten the sustainability of resource use, as well as prioritising the procurement and selection of wood pulp certified by China Forest Certification Council, Forest Stewardship Council, Programme for the Endorsement of Forest Certification Schemes or other certification schemes, and resisting procurement and use of wood pulp from illegal logging.

Our Role in Fighting Climate Change

Since the PRC government announced its 2060 carbon neutrality target in September 2020, the country has unveiled multiple environmental policies and action plans under the 1+N policy framework. In September 2021, the Central Government released the Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality (《關於完整準確全面貫徹新發展理念做好碳達峰碳中和工作的意見》), which outlines key measures and approaches for achieving the country's goal of carbon neutrality; and in October 2021, the State Council of the PRC released the Action Plan for Carbon Dioxide Peaking Before 2030 (《2030年前碳達峰行動方案》), which outlines key objectives to be included in the following two Five-Year Plans to reach peak carbon emissions by 2030.

There was a strong focus on energy transition in the most recent 14th Five-Year-Plan released in March 2021. The government has pledged to increase the non-fossil fuel share of total energy to 20% by 2025 and 80% by 2050. Other key environmental targets announced by the PRC government includes:

- 40% of new vehicles fuelled by new energy by 2030 (up from 13% in 2021)
- CO_2 emission per unit of GDP to drop over 65% by 2030 (vs 2005)
- CO_2 emissions per unit of GDP: decrease 18% by 2025
- Good urban air quality for 87.5% of days/year by 2025
- Forest coverage rate of 24.1% by 2025

Therefore, we expect local governments, and central or local ministries will subsequently roll out sector-specific measures and environmental targets to support the country's carbon peaking and carbon neutrality goals, and hold companies accountable for damaging environment. These new policies and measures may include new greenhouse gas limits, requirement to adopt renewable energy in the future. All of these imply financial and social impact to our business and wide-scale of changes in operational structure.

Our business strategy to expand our operations to the provision of new energy in 2019 aligned with the government's plan to accelerate energy transition. On the other hand, despite the recent resurgence of COVID infections in many countries, the world is also looking forward to returning to pre-COVID normal and beginning to "living with COVID". The post-pandemic recovery will see economic activity on a steep upward trajectory, which potentially create new threats to the environment. For instance, more air flights and vehicle travels will inevitably produce more greenhouse gas emissions. Hence, we must reinforce our internal governance by reviewing our environmental policies from time to time, and minimise our environmental impacts throughout our value chain to support the above-mentioned PRC government's objectives. In future, we will proactively explore the use of clean energy when feasible, and reduce our reliance on traditional fossil fuel, thereby lower our indirect greenhouse gas and exhaust gas emissions. We will maintain close communication with our suppliers and work together to develop contingency solutions for supply chain disruption or other relevant issues. We also keep a watchful eye on any changes in environmental regulations while acquiring new knowledge and technology.

The Group is currently mapping out its plan and targets on reducing carbon footprint which covers water stewardship, waste management, as well as energy consumption, etc. In the long run, these new changes will help the Group better manage climate risks and improve its resilience against it.

REPORTING ON SOCIAL ASPECTS

Employment and Labour Practices

Employment

Employment Data	Unit	Quantity 2021	2020
Total employees	no. of people	**280**	257
By gender			
– Male	percentage	**86.1**	75.9
– Female	percentage	**13.9**	24.1
By employment type			
– Permanent	percentage	**100**	87.9
– Full-time contracted	percentage	**0**	12.1
By rank			
– Senior executives and executives	percentage	**5.4**	17.9
– Others	percentage	**94.6**	82.1
By age			
– Below 30	percentage	**16.1**	11.3
– 30–39	percentage	**37.6**	41.2
– 40–49	percentage	**31.2**	30.4
– 50–59	percentage	**15.1**	16.0
– 60 or above	percentage	**0**	1.1
New employees			
– Male	no. of people	**32**	31
– Female	no. of people	**17**	16
Employee loss			
– Male	no. of people	**23**	18
– Female	no. of people	**3**	7

Our success and sustainability as a business relies heavily on our ability to attract, retain and motivate a highly skilled and productive workforce. Hence, we have invested reasonably in attracting and developing talent for our operations, and creating a work environment that encourages our employees to thrive and to maximise their potential, so that they can play a crucial part in achieving our business growth and objectives together.

Our employee handbook and other employee training materials set out the defining characteristics of our culture and business, and what we expect of our employees. They are available to all our staff members to help them grow the right, necessary skills to deliver what our customers need, making sure that they feel valued in their role in our company, and equipping them with the mindsets and skills for their career development.

Recruitment and remuneration policies

The Group endeavours to provide a fair, safe and respectful workplace environment for our staff. The Group has formulated and strictly implemented a set of comprehensive human resources management system, which is in compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (《僱傭條例》), the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) (《最低工資條例》), the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (《僱員補償條例》), the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》) and other prevailing laws and regulations.

We have in place the recruitment programmes that promote the creation of quality jobs for our existing and potential employees based on our business needs. We provide fair and adequate remuneration that aligns with market condition, industry standard and job performance for our staff members to afford a respectable standard of living. We intend to ensure a good gender balance in our workforce except certain positions which are usually very physically demanding and not able to attract a lot of female candidates.

The Group also ensure that we provide adequate employee benefits and welfare that are stipulated by the relevant laws and regulations, such as social insurance, mandatory provident fund and housing provident fund, as well as medical insurance and reasonable amount of annual leave and working hours for our employees.

Equal opportunity, inclusion and diversity

We are an equal opportunities employer and we aim to attract, recruit, develop and promote our people based on merit and irrespective of age, gender, sexual orientation, social background or ethnicity. Our employees have different perspectives and ways of working. We aim to foster this diversity, creating a culture where employees feel comfortable to bring their unique experiences and diverse backgrounds to work.

We do not tolerate any form of discrimination as set out in the mandatory requirements of our Code of Business Conduct and our Employee Handbook. We have enabled a whistle-blowing system where employees can report any discrimination or mistreatment at work, and the Group will pursue internal investigation and take rectifying measures.

Dismissal policy

In situations where an employee violates the Group's regulations or consistently performs his or her duties below an acceptable level, or any serious misconduct, changes in the Group's human resources structure, our human resources department will follow a series of procedures to terminate his or her employment contract. Terms and conditions relating to dismissal are enumerated in employment contract and other employment policy manual and would be done according to the relevant labour laws and regulations.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

Health and Safety

To ensure workplace safety, we primarily aim to achieve zero work-related fatalities, reduce the number and severity of incidents, and learn from any incidents and near misses, so that we can continually improve our performance in this space. We seek to have a better and stronger understanding of how incidents and near misses happen as we carry out thorough investigations and subsequently take necessary actions to prevent repeat incidents and make sure that lessons learnt are shared across our operations.

We have formulated and will continued to refine our bespoke safety guidelines and protocols for each of our operations, which are based on the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) (《職業安全及健康條例》), the PRC Labour Law and other relevant laws, administrative regulations, national standards and industrial standards. We also stress the importance of encouraging active reporting and investing in health and safety training and resources.

We intend to form a "safety-first" workplace culture and look to create a closer alignment between our leadership and employees to develop a more safety-conscious awareness across the Group to hold everyone within our organisation accountable for their actions and for maintaining their health and workplace safety.

In respect of occupational injuries sustained by an employee as a result of an accident arising out of and in the course of employment, or occupational diseases specified in the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (《僱員補償條例》) or other applicable laws, or permanent loss of earning capacity, the Group will offer compensation pursuant to relevant regulations, guidelines and employee agreements. The Group believes that its work environment and nature do not entail material safety risks to its employees.

Employee wellbeing

Employees' wellbeing has never been more important given the ongoing COVID-19 outbreak. Our employees are forced to work from home and experience prolonged social distancing measures, which resulted in various challenges for them both mentally and physically. Therefore, we responded by providing necessary support as our local human resources teams and management maintained a close communication with our employees, taking care of their special needs during the difficult times, such as health checks and awareness programmes, as well as adopting flexible working and family-friendly policies.

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During the Reporting Period, we had not experienced any material or prolonged stoppages of production due to equipment failure and we had not experienced any severe accidents during our production process. We have also complied with all relevant laws and regulations that have significant impacts on the Group relating to the provision of a safe working environment and the protection of our employees from occupational hazards.

Development and Training

Training statistics	Unit	Quantity 2021	2020
Total number of employees trained	no. of people	**175**	227
Trained employees as a percentage of total number of employees	percentage	**62.5**	88.3
Total training hours			
By gender			
– Male	no. of hours	**656**	1,010
– Female	no. of hours	**33**	400
Average training hours			
By gender			
– Male	no. of hours	**4**	5.7
– Female	no. of hours	**3**	7.8
Total training hours			
By position			
– Executives	no. of hours	**53**	345
– Others	no. of hours	**636**	909
Average training hours			
By position			
– Executives	no. of hours	**4.4**	10.5
– Others	no. of hours	**3.9**	4.7

Delivering learning and development opportunities for our employees has always been an integral part of our business success. Our unwavering commitment to and investment in leadership and leadership, functional training programmes encourages everyone to take control of their career development as we aim to support them to realise their potential and enhance their capabilities.

Our training and development programmes include both internal and external trainings surrounding business ethics, risk and compliance culture, industry knowledge, regulatory requirements, operation management, and so on. We believe that, by continuing to invest in developing our staff, the Group is able to build a sustainable business with next generation of business leaders.

These training programmes are connected with our employee development and reward policies, which are designed to develop, motivate, reward and retain high calibre employees to deliver business success. Although participating and completing our training programme does not automatically guarantee immediate career progression, we offer ample opportunities for promotion and a significantly enhanced role, given the continued growth of the Group.

Labour Standard

Our policy is to respect the dignity, wellbeing and human rights of our employees, the workers in our supply chain and the communities in which we operate. We believe acting ethically and responsibly is the right thing to do for our business. Child labour, forced labour and modern slavery are not acceptable in our company. We focus on addressing the root causes of child labour, including lack of awareness and moral poverty. We provide detailed guidelines and protocols for tackling the risks in our recruitment process, which is in strict compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and Regulations on Labour Security Supervision issued by the State Council of the PRC, and takes reference to international labour standards in formulating internal guidance and labour system. All recruitment procedures and promotions are strictly supervised by the Group's human resources management system.

Our guidelines outline our position and what we consider as best practices, and strictly monitor all employees (including directors and all levels of staff) to eradicate all violations. Employees' rights are clearly described in employee manual and employment contracts as they are encouraged to speak out if they are exploited or forced to work unethically against their will. The Group will conduct investigations, punishment or dismissal of employees who violate our policy. If necessary, the Group will further improve the labour mechanism against illegal behaviours.

Workplace harmony

In addition, the Group is committed to protecting its staff from any humiliation, intimidation, threatening and harassment and bullying in any other forms at workplace. In case of violation, the Group will promptly conduct investigation, as well as dismiss and punish employees in breach of such policy, whilst improving its labour system to address the issues.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to child and forced labour.

Operating Practices

Supply Chain Management

We aim to develop a responsible supply chain to mitigate the social and environmental issues related to the sourcing of service and commodities for our business use. We believe sustainability is an integral part of our sourcing and procurement activities. That idea extends to the products and services we purchase, contractual agreements that we enter into, and business partners that we work with. We strive to ensure minimum standards, such as acceptable labour conditions, compliance with environmental laws, and transparency related to health and safety, and data security.

As at 31 December 2021, the Group had approximately 119 suppliers and they are mainly located in Shandong, Jiangsu, Shanghai, Henan, Beijing, Hubei and other provinces or cities in China. Working with them helps keeping our transportation costs low and enabling us to keep abreast of local market development which facilitate us to produce products that cater to customers' needs.

While we have not entered into any long-term supply contracts with our suppliers, we maintain stable and long-term relationship with our major suppliers. Our key suppliers for the cigarette packaging business are large paper and metallised film manufacturers, mainly providing raw materials of cigarette packaging paper including white cardboard and metallised film which are composed of aluminium foil, polyethylene terephthalate (PET) and biaxially oriented polypropylene (BOPP).

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Regarding household paper products, the PRC government promulgated the Safety Assessment Management System of Household Paper and Paper Products, Chemicals and Raw Materials (GB/T36420-2018) (《生活用紙和紙製品、化學品及原料安全評價管理體系》) since 1 January 2019 with an aim to lay down stricter requirements on production process of household paper and paper products, as well as safety control of chemicals and raw materials. The Group has adopted necessary measures to meet relevant standards.

Procurement policy

We choose suppliers based on their business records, products and services quality, cost, after-sale services and transportation and other factors. We periodically invite suppliers to provide us samples for pre-assessment and our procurement department maintains a list of qualified suppliers which have passed our internal assessment as potential suppliers for future purchases.

For the purpose of selecting a supplier for procurement of raw materials, we typically invite our pre-assessed suppliers to participate in a fair, just and open tendering procedure and we assess the tenders based on their quality, price and our purchasing history. Once a supplier is selected after the close of a tender, we typically enter into a fair and reasonable supply contract with the supplier to avoid any exploitation before placing orders to procure the raw materials we require. In addition, provisions for environmental protection are incorporated into certain contracts, requesting contractors and/or suppliers to strictly observe the requirements of environmental protection. In addition to assessing our suppliers on environmental performances, we also closely monitor the quality, cost, service and delivery of their products, as well as their commitments to high moral standards, when performing their contractual obligations. In case our suppliers fail to comply with any applicable laws and regulations or are unable to fulfill their contractual obligations, we will replace them and take legal actions for any related losses when necessary.

Product Responsibility

Quality first

Our “quality-first” policy formalises how we strive to deliver defect-free products, processes and capabilities that create sustainable value for our brands. Our customers trust in the quality of our products and their needs are constantly evolving as the industry is also advancing with higher environmental and regulatory requirements. To ensure that we meet our customers’ needs and the changing industry trends, and maintain our good reputation within the industry, we implement stringent quality control management and pursue innovation with the aim to not only meet these needs but to anticipate them.

At the same time, our production department works closely with the quality control department throughout the production process to ensure each production process is carried out in accordance with the quality standard. Before we deliver our final products to customers, our quality control department conducts quality assessment on each batch of final products to check that the products have been produced in accordance with the applicable standards and approved production processes. Only those final products that have fulfilled all testing requirements are delivered to our customers.

We maintain an effective quality control system covering all the major production processes, from procurement of raw materials, operation of machineries, to proper use of materials and packaging, in order to prevent product defects and excessive chemicals remained in our products and excessive emission of Volatile Organic Compounds (VOC).

Understanding customers' needs

The pandemic and improving living standard of our customers prompted the rising health awareness of the products they consume. Therefore, gaining customer satisfaction is one of the most important factors in solidifying our market leadership. To maintain our competitive advantages, we put extensive efforts to engage with our existing and potential customers, understand their needs, so that we can improve our product and service quality through research and development, and produce products that not only suits their needs, but also create new demands in the industry.

We have also adopted a unified sales return policy which applies to all of our products and all customers. After receiving our products and prior to giving its final confirmation of acceptance, our customers may request us to reprocess any products which fail to meet their required product specifications. On the other hand, request for product return after a customer's final confirmation of acceptance will only be accepted if there is any product quality issue and upon re-examination of the alleged defective product by our production department, quality control department and sales department.

Privacy and intellectual property policies

We fully understand the importance of intellectual property rights. Our core production technology and critical production processes are crucial to our continued success and development. Any infringement of our intellectual rights may seriously affect our business and reputation. Therefore, we aspire to protect our patents, brand, trademark and other intellectual property rights and eradicate all infringement of our intellectual property rights. We also ensure that our business operation processes are in compliance with the Trademark Law of the PRC (《中華人民共和國商標法》), the Implementation Rules of the PRC Patent Law (《中華人民共和國商標法實施條例》), the Contract Law of the PRC (《中華人民共和國合同法》), the Intellectual Property Law of the PRC (《中華人民共和國知識產權法》), the Anti-unfair Competition Law (《反不正當競爭法》) and other relevant laws, administrative regulations, national standards and industrial standards.

We have a privacy policy, pursuant to which all personal and corporate data must be collected in compliance with all relevant privacy laws. We requested our staff to protect our customers' privacy and handle all commercially sensitive or confidential information in strict confidence. When cooperating with other companies, the Group enters into corresponding confidentiality agreements, whereby collection, use, storage and deletion of data including third-party patent technology are regulated, while the scope within which such confidential information can be informed of is delimited, in order to prevent any misuse or leaks.

Advertising and labelling

To attract clients, we carry out marketing and promotional works in an appropriate manner. We have been in compliance with all applicable laws and standards enacted by the government and industry associations. All promotion activities are only conducted upon confirmation that the requirements on the use of brand and advertising solutions of products and services are met, so as to avoid any misleading, inaccurate or exaggerating information. The Group will seek legal advice when necessary. We ensure that consumers are provided with sufficient and accurate information on our services to make informed choices.

Also, given the increasing focus of the PRC government on developing a "healthy China" and wider smoking bans, we make sure that our cigarette packaging products help our customers meet the tightening requirements of cigarette product promotion.

During the Reporting Period, the Group has complied with all relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters of its products and services. There was no loss sustained by the Group's customers that are caused by leaks of customers' privacy data or other service problems; there was also no material complaints or damage claim from customers in respect of poor product or service quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-corruption

Anti-corruption, extortion, fraud and money-laundering

Our Board and management lead by example to create and promote a workplace culture where ethical principles and business conduct are expected and encouraged. We strive to achieve the highest legal, moral and ethical standards in all of our corporate activities. Our commitment to anti-bribery and anti-corruption is articulated in the Group's Code of Conduct, which pinpoints our whole supply chain from upstream suppliers to downstream end-customers, thereby ensuring that our directors and every employee clearly understand our strong stance of "zero-tolerance" against any corruption, fraudulence, extortion, money laundering and bribes.

Our Code of Conduct covers anti-corruption measures about recruitment and promotion, procurement and sale, as well as internal audit. These measures include, but are not limited to, verification of the identity and relationship of employees to avoid hiring people who have close relationships with the Group's employees and management with unreasonable clauses; thorough inspection of clients' capital source to prevent money-laundering; stringent monitoring of procurement process to prohibit staff from taking benefits for facilitating the clients to obtain procurement contracts in a dishonest manner. In addition to setting up audit committee, nomination committee and remuneration committee as required by the Listing Rules, the Group also engages external compliance and legal advisors and auditor to ensure that the Company's results announcement and other disclosures fulfill the relevant requirements.

Besides control measures to tackle malpractices, the Group also focuses on risk assessment and employee training to identify and mitigate potential risks of unethical conduct and law violations.

Whistle-blowing policy

We encourage employees to speak up and report conduct which violates relevant laws and our internal Code of Conduct. We provide multiple reporting channels to report any wrongdoing and misconduct anonymously as we undertake to safeguard their identity. Reported issues are reviewed, verified and analysed by our management and designated staff, Cases in which an employee does not comply with our code of conduct or policies may constitute grounds for disciplinary action or termination of employment. We will also cooperate with regulatory authorities and law enforcement agencies to report issues that violate the anti-corruption laws. The Group will further improve the mechanism to safeguard against illegal behaviour when necessary.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, extortion, fraud and money laundering.

Community

Community Investment

We seek to create and contribute to social value in the communities through bringing positive social and economic benefits that are generated by our core business. We aspire to build meaningful long-term relationships with the communities where we operate in. As part of our initiatives to support the government's objective to eradicate extreme poverty and achieve common prosperity, we employ local people and purchase local goods and services through our supply chains when possible. The Group actively explores options in coordinating charitable activities and collaborating with other organisations in different areas, such as education, culture, poverty relief, and so on. We aim to demonstrate positive influence of corporate values by raising employees' awareness of caring for the community and mutual help.

During the Reporting Period, the Group actively engaged with different institutions in the community where we operate in and communicated with the local governments, so that we can participate in or organise community programmes that meet their needs and support their visions to create positive social impact. We hope to build the corporate culture of "lending a helping hand" through setting up an example by ourselves. We also encourage our staff to actively participate in community activities and promote the relationship between our employees and community.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND EXECUTIVE DIRECTOR

Mr. CHEN Shuming, aged 57, is the chairman and executive Director of the Company. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Chen has over 27 years of experience in the paper manufacturing industry. Mr. Chen completed an amateur college course in agriculture economic management (業餘大專班農業經濟管理專業) from the China Communist Party Shandong Provincial Committee Party School* (中共山東省委黨校) in December 1997 and obtained the Credentials of Senior Operating Manager (高級經營師) certified by the National Credentials Committee of Senior Operating Manager (全國高級經營師評審委員會) in August 2006. From July 1984 to May 1992, he worked at the Dongping County Foreign Trade Corporation* (東平縣外貿總公司). From May 1992 to October 2000, he was the general manager of Shandong Province Dongping County Mingxing Paper Manufacturing Limited* (山東省東平縣明興紙業有限責任公司). Since October 2000, he has been acting as the chairman of the board of directors of Dongshun Group (東順集團) ("Dongshun Group"), a company that engages in the manufacturing of household papers and personal hygiene products in the PRC.

Mr. Chen has been a vice commissioner (副主任委員) of the China Paper Manufacturing Association, Household Paper Professional Committee* (中國造紙協會生活用紙專業委員會) since 2015 and the vice president of the Shandong Province Paper Manufacturing Industry Association* (山東省造紙行業協會) since 2016 and the president of the Household Paper Industry Association since June 2019. Mr. Chen was also a committee member of the 9th, 10th and 11th Shandong Province Committee of the PRC Political Consultative Conference* (中國人民政治協商會議山東省政協委員) and has been appointed as the economic consultant of the Dongping County government (東平縣人民政府) for a consecutive of 13 years since 2009. He was awarded Outstanding Contributor in December 2019 by Shangdong Private Entrepreneurs Union. In August 2021, Mr. Chen was appointed as the Honorary Chairman of the First Council of the Federation of Hong Kong Shandong Associations* (香港山東社團總會).

As at the date of this report, Mr. Chen is the beneficial owner of 100% of the issued share capital of Champion Alliance International Corporation, which in turn holds 350,000,000 Shares representing approximately 64% of the issued share capital of the Company.

EXECUTIVE DIRECTOR

Mr. CHEN Xiaolong, aged 35, is an executive Director and chief executive officer of the Group. He is the son of Mr. Chen Shuming and the spouse of Ms. Chen Xiaoyan. Mr. Chen Xiaolong has over 8 years of experience in the paper manufacturing industry. He graduated from the University of Northumbria at Newcastle, the United Kingdom, and was awarded a bachelor's degree of science in sport management in June 2012.

Since July 2012, Mr. Chen Xiaolong has been working as the chief operating officer (經營總裁) at Dongshun Group, a company that engages in the manufacturing of household papers and personal hygiene products in the PRC.

Mr. Chen Xiaolong has been serving as the vice president of Shandong Private Entrepreneurs Association* (山東省民營企業家協會) since 2017 and has also been a member of the Society of Entrepreneurs & Ecology (阿拉善SEE生態協會) for a term of one year since December 2017. He is a committee member of the 13th and 14th Taian City Committee of the PRC Political Consultative Conference* (中國人民政治協商會議泰安市政協委員). In December 2021, Mr. Chen Xiaolong was awarded the 13th "Jinan Influential"* (影響濟南) entrepreneurial figure.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. HU Enfeng, aged 58, is an executive Director and the chief financial officer of the Group. He obtained a certificate as an auditor conferred by the Audit Bureau of the PRC (中華人民共和國審計署) in November 1992 and further obtained the qualification as a senior accountant certified by Hubei Province Township Professional Technical Senior Position Review Committee* (湖北省鄉鎮企業專業技術高級職務評審委員會) in April 2002. He also obtained a certificate of a top-up degree (專升本科) course in accounting from Northeast Normal University (東北師範大學) through professional online education in July 2017.

From July 1988 to October 2002, Mr. Hu successively worked as the auditor (審計員), vice manager (副所長) and manager (所長) at Hubei Henganxin Accounting Company Limited* (湖北恒安信會計師事務有限公司) (formerly known as Ying City Audit Firm* (應城市審計事務所)). From November 2002 to August 2004, he worked at Dongshun Group, a company that engages in the manufacturing of household papers and personal hygiene products in the PRC, and took up various roles, including the financial manager (財務部經理) and the assistant to the chairman of the board (董事長助理). From August 2004 to August 2015, he had been working at Guangdong Jovo Energy Group Co., Ltd. (廣東九豐能源集團有限公司) with the last position held as the vice president (副總裁) and the general manager (總經理) of the liquefied natural gas ("LNG") department. From August 2015 to December 2017, he was the president (總裁) in the area of LNG in the PRC of a group company, namely Pacific Oil & Gas Company Limited* (太平洋油氣有限公司). Since March 2018, he has been acting as the assistant to the chairman of the board (董事長助理) in Dongshun Group.

Ms. WU Cheuk Yan, aged 49, is an executive Director of the Group. She obtained a degree of master in business administration from Peking University and Fordham University in Manhattan, New York in June 2007. She has more than 20 years of experience in business operation and financial investment.

Ms. Wu managed a company engaging in petroleum trading and consultancy from December 2003 to May 2007. From August 2007 to April 2008, she worked in Mercuria Energy Trading SG based in Geneva, Switzerland. She was the project finance manager in The Royal Bank of Scotland Plc, London and Hong Kong branches from May 2008 to December 2012. She was the executive director of New Penetration Capital Limited from February 2013 to May 2016. She worked in AZ Fund Management SA, a Luxembourg company, as sales Vice General Manager and Head of Business Development Greater China from August 2016 to December 2020.

Mr. ZHANG Shihua, aged 37, is an executive Director and the chief information officer of the Group. He has approximately 15 years of experience in the paper manufacturing industry. He obtained his qualification as a secretary to the board of directors (董事會秘書資格證書) conferred by the Shenzhen Stock Exchange in March 2014. He obtained his bachelor's degree in law at Liaocheng University (聊城大學) in December 2016.

From September 2003 to September 2005, Mr. Zhang worked in the legal industry at Shangdong Gongyun Law Offices (山東公允律師事務所). Since October 2005, he has been working as the vice president (副總裁) in Dongshun Group, a company that engages in the manufacturing of household papers and personal hygiene products in the PRC.

Mr. Zhang was admitted as a member of the China Law Society (中國法學會) in 2015 and was also a committee member of the 9th and 10th Dongping County Committee of the PRC Political Consultative Conference* (中國人民政治協商會議東平縣委員會). He was also awarded as a Working Role Model* (勞動模範) by the Dongping County government (東平縣人民政府) in April 2017.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. CHEN Xiaoyan, aged 36, is an executive Director. She obtained a degree of bachelor of arts in broadcasting and anchorage (film direction)* from Sichuan Normal University (四川師範大學) in June 2008.

Ms. Chen worked in Shandong People's Daily Advertising Company Limited* (山東大眾報業(集團)廣告有限公司), a limited company incorporated in the PRC, as a journalist and editor from August 2009 to March 2010. Ms. Chen has been working as the vice-president of Dongshun Group that engages in the manufacturing of household papers and personal hygiene products in the PRC, since May 2010.

Ms. Chen is the spouse of Mr. Chen Xiaolong and also the daughter-in-law of Mr. Chen Shuming.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. CHEN Hua, aged 54, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee. He has more than 30 years of experience in the field of economics and finance. He graduated from Southwestern University of Finance and Economics (西南財經大學), the PRC, and was awarded a bachelor's degree in economics (major in statistics) in July 1989. Between July 1989 and September 2002, Mr. Chen Hua served various roles, including deputy chief of the sub-branch and department manager of the branch, of the Industrial and Commercial Bank of China. He obtained a master's degree in science from Shandong University (山東大學), the PRC, in December 2001 and a doctorate degree in economics from Soochow University (蘇州大學), the PRC, in June 2005. He was the professor and the head of the regional competitiveness assessment center (區域競爭力評價中心) of the Shandong Economics University* (山東經濟學院) from March 2005 to July 2007 and the vice president of the taxation and finance institute of Shandong Economics University* (山東經濟學院財稅金融研究所) from July 2007 to July 2009. From September 2010 to April 2013, he was an applied economics postdoctoral researcher at the Fiscal Science Research Institute of the Ministry of Finance of the PRC* (中華人民共和國財政部財政科學研究所). Since November 2014, he has been the head of the finance research institute of Shandong University of Finance and Economics* (山東財經大學當代金融研究所).

Mr. Chen served as a committee member of the 11th Shandong Province Committee of the PRC Political Consultative Conference* (中國人民政治協商會議山東省政協委員) and was appointed as a budgetary review consultant* (預算審查顧問) by the Shandong Province Standing Committee of National People's Congress (山東省人大常委會) in September 2018.

From April 2015 to May 2021, Mr. Chen has been an independent non-executive director of Bank of Qingdao Co., Ltd. (H Shares Stock Code: 3866 and Preference Shares Stock Code: 4611), whose shares are listed on the Main Board of the Stock Exchange. He is currently the independent director of Shandong State-owned Assets Investment Holdings Company Limited (山東省國有資產投資控股有限公司), Shandong Bocon International Port Company Limited (山東寶港國際港務股份有限公司) and Jining Hongrun Food Company Limited (濟寧鴻潤食品股份有限公司). From July 2021, Mr. Chen was appointed as the Independent director of Bank of Rizhao Co., Ltd (日照銀行股份有限公司) and Impolse (Qingdao) Health Tech Co., Ltd (青島英派斯健康科技股份有限公司).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHAO Zhendong, aged 58, is an independent non-executive Director, a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee. He has over 38 years of experience in the paper manufacturing industry. Mr. Zhao completed a two-year paper manufacturing program at Shandong Province Light Industry School* (山東省輕工業學校) in July 1984. He obtained a diploma in chemistry from Shandong Normal University (山東師範大學) in July 1990 and an undergraduate diploma in economics from China Communist Party Central Party School Correspondence College* (中共中央黨校函授學院) in December 1993. Mr. Zhao also obtained the qualification as a senior engineer conferred by Shandong Province Light Industry Technical Position Senior Review Committee* (山東省輕工工程技術職務高級評審委員會) in October 2002.

Between July 1984 and December 1997, Mr. Zhao worked as a technician and an assistant engineer at Shandong Paper Group Head Office* (山東紙業集團總公司). From January 1998 to April 2005, he served as the engineer, senior engineer and deputy secretary general of Shandong Province Paper Manufacturing Industry Association* (山東省造紙行業協會). From April 2005 to May 2020, he had been serving as the secretary general and vice president of Shandong Province Paper Manufacturing Industry Association* (山東省造紙行業協會). From June 2020, he was appointed as the vice president of Shandong Paper Association* (山東省造紙行業協會), and an executive council member (常務理事) of Shandong Papermaking Society* (山東造紙學會). From March 2022, he was appointed as the vice president (副理事長) of China Paper Association* (中國造紙協會).

Mr. CHIN Chi Ho Stanley, aged 39, is an independent non-executive Director. He has over 15 years of experience in the areas of audit, financial management, corporate governance and operations in capital markets. Mr. Chin has obtained a Master of Business Administration degree from the University of Hong Kong. He was admitted as a Certified Public Accountant in 2009 and served as an audit specialist in PricewaterhouseCoopers and KPMG for 7 years. He has also been awarded the qualification of Financial Risk Manager in 2009 and Chartered Financial Analyst in 2010. Mr. Chin has extensive experience serving as senior management for different Hong Kong listed companies.

COMPANY SECRETARY

Ms. LEUNG Mei King, aged 46, has been appointed as the company secretary of the Company since October 2021. She is responsible for accounting and financial matters as well as company secretarial matters of the Group.

Ms. Leung holds a bachelor degree in Accountancy from The Hong Kong Polytechnic University. She is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Leung has over 15 years of experience in the field of auditing, accounting and financial management in a range of auditing firms and Hong Kong listed companies. She is currently the company secretary of Vestate Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1386).

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF CHAMPION ALLIANCE INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Champion Alliance International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 64 to 131, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

KEY AUDIT MATTERS *(Continued)*

Impairment assessment of property, plant and equipment and right-of-use assets

The carrying amounts of property, plant and equipment and right-of-use assets of the cigarette packaging business segment of the Group as at 31 December 2021 were RMB21,622,000 and RMB10,388,000, respectively.

Given that the operating performance of the cigarette packaging business segment is deteriorating, management considered that the property, plant and equipment and right-of-use assets of this business segment may be impaired. Accordingly, management performed an impairment assessment on these assets in accordance with Hong Kong Accounting Standard 36 *Impairment of Assets* issued by the HKICPA. In this regard, the Group engaged an independent professional valuer to assist it in the estimation of the recoverable amount of these assets on the fair value less costs of disposal basis, which requires, inter alia, estimation of the prices at which an orderly transaction to sell these assets would take place.

Given the complexity and judgemental nature of the impairment assessment, we considered this a key audit matter.

The accounting policies, significant accounting judgements and estimates and disclosures about the balances of property, plant and equipment and right-of-use assets are included in notes 4(d), 4(h), 5(a), 16 and 18 to the consolidated financial statements.

Our response:

Our audit procedures in relation to the impairment assessment of property, plant and equipment and right-of-use assets included the following:

- evaluating the assumptions and data used by the Group in the impairment assessment of these assets;
- engaging an independent and qualified valuation specialist to assist us in evaluating the methodology adopted and key assumptions used by the independent professional valuer for the impairment assessment and the fair value used in the recoverable amount calculation; and
- evaluating the competence, capabilities and objectivity of the independent professional valuer.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Impairment assessment of trade receivables

At 31 December 2021, the Group had trade receivables of RMB92,229,000, which represented 14% of the Group's total assets as at that date.

In assessing the recoverability of trade receivables, management uses a provision matrix to measure expected credit losses ("ECLs") and the provision rates are based on the average of historical incurred credit loss experience on each ageing group of trade receivables. Customers with credit deterioration will be assessed on an individual basis for the provision of expected credit losses. In this regard, the Group engaged an independent professional valuer to assist in the measurement of ECLs in accordance with Hong Kong Financial Reporting Standard 9 ("HKFRS 9") *Financial Instruments*.

Significant management's judgements and estimates were involved in determining the recoverability of the trade receivables for impairment assessment.

Related disclosures of the accounting policies, accounting judgements and estimates and impairment of trade receivables are included in notes 4(j), 5(d) and 22 to the consolidated financial statements.

Our response:

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

- obtaining an understanding of the credit loss provisioning methodology adopted by the Group;
- assessing the allowance for expected credit losses estimated by management with reference to the history of debtors' settlement patterns and ageing analysis of the trade receivables;
- testing the ageing analysis of trade receivables prepared by management and reviewing the payment history of the debtors on a sample basis;
- engaging an independent and qualified valuation specialist to assist us in evaluating the credit loss provisioning methodology adopted by the independent professional valuer in the measurement of ECLs with reference to the requirements of HKFRS 9; and
- evaluating the competence, capabilities and objectivity of the independent professional valuer.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of 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 also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants
Wendy W.Y. Fong

Practising Certificate Number: P06821

Hong Kong
29 April 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 *RMB'000*	2020 *RMB'000*
Revenue	7	**492,414**	568,701
Cost of sales		**(389,556)**	(483,300)
Gross profit		**102,858**	85,401
Other income and gains	8	**9,314**	2,625
Selling and distribution expenses		**(26,722)**	(40,738)
Administrative expenses		**(22,255)**	(23,664)
Impairment of trade receivables, net	22(b)	**(9,091)**	(1,283)
Other expenses		**(8,424)**	(8,311)
Finance costs	9	**(3,649)**	(7,658)
Profit before income tax	10	**42,031**	6,372
Income tax expense	13	**(17,760)**	(6,849)
Profit/(loss) for the year		**24,271**	(477)
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation of the Company's financial statements into its presentation currency		**2,107**	1,517
Total comprehensive income		**26,378**	1,040
Profit/(loss) for the year attributable to:			
Owners of the Company		**24,361**	(527)
Non-controlling interests		**(90)**	50
		24,271	(477)
Total comprehensive income attributable to:			
Owners of the Company		**26,468**	990
Non-controlling interests		**(90)**	50
		26,378	1,040
Earnings/(loss) per share			
– Basic and diluted (RMB cents per share)	14	**4.79**	(0.10)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**230,317**	24,523
Investment property	17	**4,086**	4,350
Right-of-use assets	18(a)	**50,758**	24,097
Computer software	19	**47**	66
Prepayments for property, plant and equipment		**4,932**	–
Total non-current assets		**290,140**	53,036
CURRENT ASSETS			
Inventories	21	**64,051**	78,209
Trade and bills receivables	22	**93,379**	165,172
Prepayments, deposits and other receivables	23	**44,562**	20,456
Income tax recoverable		**280**	963
Restricted cash	24	**26,641**	48,721
Cash and cash equivalents	24	**149,796**	66,459
Total current assets		**378,709**	379,980
CURRENT LIABILITIES			
Trade and bills payables	25	**125,891**	175,379
Other payables and accruals	26	**125,386**	71,115
Income tax payable		**8,783**	1,253
Bank and other borrowings	27	**41,136**	48,462
Lease liabilities	18(b)	**449**	12,840
Deferred government grants	28	**524**	–
Total current liabilities		**302,169**	309,049
NET CURRENT ASSETS		**76,540**	70,931
TOTAL ASSETS LESS CURRENT LIABILITIES		**366,680**	123,967

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Other payables	26	**2,340**	–
Lease liabilities	18(b)	**–**	461
Deferred government grants	28	**24,219**	798
Total non-current liabilities		**26,559**	1,259
NET ASSETS		**340,121**	122,708
EQUITY			
Share capital	29	**4,838**	4,459
Reserves	30	**240,858**	117,342
Equity attributable to owners of the Company		**245,696**	121,801
Non-controlling interests	33	**94,425**	907
TOTAL EQUITY		**340,121**	122,708

Chen Shuming
Director

Hu Enfeng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital *RMB'000*	Share premium account *RMB'000*	Merger reserve *RMB'000* *(Note 30(b))*	Exchange fluctuation reserve *RMB'000*	PRC statutory reserve *RMB'000* *(Note 30(c))*	Retained profits *RMB'000*	Equity attributable to owners of the Company *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2020	4,459	63,065*	23,803*	497*	13,024*	16,440*	121,288	–	121,288
Loss for the year	–	–	–	–	–	(527)	(527)	50	(477)
Other comprehensive income:									
– Exchange differences on translation of the Company's financial statements into its presentation currency	–	–	–	1,517	–	–	1,517	–	1,517
Total comprehensive income for the year	–	–	–	1,517	–	(527)	990	50	1,040
Change in the Group's ownership interest in a subsidiary	–	–	–	–	–	(477)	(477)	857	380
At 31 December 2020 and 1 January 2021	**4,459**	**63,065***	**23,803***	**2,014***	**13,024***	**15,436***	**121,801**	**907**	**122,708**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**24,361**	**24,361**	**(90)**	**24,271**
Other comprehensive income:									
– Exchange differences on translation of the Company's financial statements into its presentation currency	**–**	**–**	**–**	**2,107**	**–**	**–**	**2,107**	**–**	**2,107**
Total comprehensive income for the year	**–**	**–**	**–**	**2,107**	**–**	**24,361**	**26,468**	**(90)**	**26,378**
Shares issued as the consideration of acquisition of a subsidiary *(note 34)*	**379**	**97,048**	**–**	**–**	**–**	**–**	**97,427**	**–**	**97,427**
Acquisition of a subsidiary *(note 34)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**93,608**	**93,608**
At 31 December 2021	**4,838**	**160,113***	**23,803***	**4,121***	**13,024***	**39,797***	**245,696**	**94,425**	**340,121**

* These reserve accounts comprise the consolidated reserves of RMB240,858,000 (2020: RMB177,342,000) in the consolidated statement of financial position as at 31 December 2021.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Profit before income tax expense		**42,031**	6,372
Adjustments for:			
Bank interest income	8	**(830)**	(291)
Subsidy income	8	**(233)**	(146)
Finance costs	9	**3,649**	7,658
Depreciation of property, plant and equipment	10	**5,612**	3,427
Depreciation of investment property	10	**264**	264
Depreciation of right-of-use assets	10	**11,345**	11,637
Amortisation of computer software	10	**19**	27
Loss/(gain) on disposal of property, plant and equipment		**16**	(89)
Impairment of trade receivables, net	22(b)	**9,091**	1,283
Gain on lease modification		**(36)**	–
Cash flows before working capital changes		**70,928**	30,142
Decrease in inventories		**14,158**	29,973
Decrease/(increase) in trade and bills receivables		**66,231**	(25,108)
Increase in prepayments, deposits and other receivables		**(9,721)**	(2,953)
(Decrease)/increase in trade and bills payables		**(10,138)**	31,659
(Decrease)/increase in other payables and accruals		**(49,488)**	17,649
Exchange alignments		**225**	(559)
Cash generated from operations		**82,195**	80,803
Tax refunded		**1,157**	–
Income tax paid		**(12,153)**	(6,463)
Net cash generated from operating activities		**71,199**	74,340
Cash flows from investing activities			
Cash inflow arising from the acquisition of a subsidiary	34	**93**	–
Prepayments for property, plant and equipment		**(53)**	–
Purchase of property, plant and equipment		**(318)**	(1,702)
Proceed from disposal of property, plant and equipment		**363**	482
Direct cost relating to new lease		**–**	(30)
Interest received		**830**	291
Net cash generated from/(used in) investing activities		**915**	(959)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 *RMB'000*	2020 *RMB'000*
Cash flows from financing activities	*35(b)*		
New bank loans		**8,500**	15,000
Repayment of bank loans		**(15,000)**	(15,000)
Interest paid		**(666)**	(1,265)
Decrease/(increase) in restricted cash		**22,080**	(31,246)
Principal portion of lease payments		**(10,823)**	(11,369)
(Decrease)/increase in amount due to a company controlled by a former director		**(2,976)**	1,721
Increase in amount due to a company controlled by a director of a subsidiary		**3,900**	–
Increase in amount due to a director of a subsidiary		**4,450**	–
Increase in amount due to a former shareholder of a subsidiary		**1,837**	–
Net cash generated from/(used in) financing activities		**11,302**	(42,159)
Net increase in cash and cash equivalents		**83,416**	31,222
Cash and cash equivalents at beginning of year		**66,459**	35,694
Effect of exchange rate changes on cash and cash equivalents		**(79)**	(457)
Cash and cash equivalents at end of year		**149,796**	66,459
Analysis of cash and cash equivalents			
Cash and bank balances	*24*	**149,796**	66,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

1. GENERAL

Champion Alliance International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office address of the Company is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands and the Company's principal place of business in Hong Kong is located at Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the following activities:

- manufacture and sale of cigarette packaging materials and provision of related processing services in the mainland ("Mainland China") of the People's Republic of China (the "PRC" or "China");

- production and sale of steam for industrial use, heating and electricity in Mainland China; and

- trading of household paper products in Mainland China.

In the opinion of the directors of the Company, the immediate holding company and the ultimate holding company of the Company is Champion Alliance International Corporation, which is incorporated in the British Virgin Islands (the "BVI").

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of measurement

These financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is Hong Kong dollars, while these financial statements are presented in Renminbi ("RMB"). As the management ordinarily uses RMB for management reporting purposes, the directors of the Company consider that it will be more appropriate to adopt RMB as the Group's and the Company's presentation currency. All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new or revised HKFRSs — effective on 1 January 2021

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

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

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

(b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[4]
Amendments to HKAS 8	Definition of Accounting Estimates[4]
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction[4]
Amendments to HKAS 16	Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021[1]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards, HKFRS 9 Financial Instruments, HKFRS 16 Leases and HKAS 41 Agriculture[2]

1 Effective for annual periods beginning on or after 1 April 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Interpretation 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2021. The revision to HK Interpretation 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the financial statements.

Amendments to HKAS 1 and HKFRS 2 Practice Statement 2 – Disclosure of Accounting Policies

The amendments require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKAS 8 – Definition of Accounting Estimates

The amendments introduce a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments require entities to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

HKAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. For entities which may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

Amendments to HKFRS 16, COVID-19-Related Rent Concessions beyond 30 June 2021

The amendment extends the time limit in one of the qualifying criteria of the practical expedient for COVID-19-related rent concessions from 30 June 2021 to 30 June 2022. As such, the use of the practical expedient is available to more rent concessions, in particular those involving reduction in lease payments originally due after 30 June 2021 but before 30 June 2022.

The amendment is effective for annual periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not yet authorised for issue at 9 April 2021, the date the amendment was issued by the HKICPA.

A lessee is required to apply the amendments retrospectively, with the cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of equity at the beginning of the annual reporting period. Lessees that had elected to apply the practical expedient in their previous financial statements are required to apply the extension to eligible contracts with similar characteristics and in similar circumstances.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) New or amended HKFRSs that have been issued but are not yet effective *(Continued)*

Annual Improvements to HKFRSs 2018–2020

The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) 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 key management personnel of the Group or the Company'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 the employees of 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 key management personnel of the entity (or of a parent of the entity).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (i) that person's children and spouse or domestic partner; (ii) children of that person's spouse or domestic partner; and (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of different categories of property, plant and equipment are as follows:

Plant and buildings	5 to 20 years
Machinery	5 to 20 years
Furniture and fixtures	5 to 10 years
Motor vehicles	5 to 10 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investment property

Investment property is an interest in land and building (including the leasehold property held as a right-of-use asset) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of an investment property over its estimated useful life of 20 years.

Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the period of the retirement or disposal.

(f) Computer software

Computer software acquired separately is measured on initial recognition at cost. The useful life of computer software is assessed to be finite.

Computer software is subsequently amortised over the useful economic life of 5 years and assessed for impairment whenever there is an indication that an item of computer software may be impaired. The amortisation period and the amortisation method for computer software are reviewed at least at each financial year end.

An item of computer software is derecognised on disposal or no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the computer software is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant computer software.

(g) Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset arising from the projects so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leasing

The Group assesses at contract inception whether a 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.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. 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. Rental income is accounted for on the straight-line basis over the lease terms and is included in other income in profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents, if any, are recognised as other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on the straight-line basis over the following depreciation periods, which are the shorter of the lease terms and the estimated useful lives of the assets:

Leasehold land	41 to 50 years
Office premises	2 years
Plant and equipment	1 year and 1 day
Staff quarter	2 years

If ownership of the leased asset is transferred to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The Group's right-of-use assets are separately presented on the face of the consolidated statement of financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leasing *(Continued)*

Group as a lessee *(Continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the interest rate implicit in the lease or, where that rate cannot be readily determined, the Group uses its incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately presented on the face of the consolidated statement of financial position.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of plant, machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on the straight-line basis over the lease term.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

(j) Investments and other financial assets

Initial recognition and measurement

Financial assets are all classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset (debt instrument) to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets (debt instruments) with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Investments and other financial assets *(Continued)*

Initial recognition and measurement *(Continued)*

The Group's business model for managing financial assets (debt instruments) refers to how it manages its financial assets (debt instruments) in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets (debt instruments), or both. Financial assets (debt instruments) classified and measured at amortised cost are held within a business model with the objective to hold financial assets (debt instruments) in order to collect contractual cash flows, while financial assets (debt instruments) classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets (debt instruments) which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Impairment

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

(a) General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Investments and other financial assets *(Continued)*

Impairment *(Continued)*

(a) General approach (Continued)

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

(b) Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Investments and other financial assets *(Continued)*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(k) Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as financial liabilities measured at amortised cost, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Financial liabilities *(Continued)*

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

(l) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(n) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(o) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(q) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

(r) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Where the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

(s) Revenue recognition

Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

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

(a) Sale of goods

Sale of cigarette packaging products and household paper products

Revenue from the sale of cigarette packaging products and household paper products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of household paper products provide customers with volume rebates. The volume rebates give rise to variable consideration.

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

Sale of heating

Revenue from the sale of heating is recognised over time when the heating is supplied to and consumed by the customers. Revenue is recognised at the stated unit price per square meter of each flat.

Sale of steam for industrial use and electricity

Revenue from the sale of steam for industrial use and electricity is recognised over time when the steam and electricity are supplied to and consumed by the customers. Revenue is recognised at the contractually stated price based on the steam and electricity consumption derived from meter readings.

(b) Processing service income

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition *(Continued)*

Revenue from other sources

(a) Rental income is recognised on the straight-line basis over the lease terms.

(b) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(t) Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

(u) Employee benefits

(a) Share-based payments

In prior years, an employee of the Group received remuneration in the form of a share-based payment provided by the then controlling shareholder of the Group, whereby the employee agreed to render a five-year service period to the Group in exchange for acquiring certain percentage of equity interest in a subsidiary of the Group from the controlling shareholder at a below-market price (the "equity-settled transaction").

The cost of the equity-settled transaction is measured at the fair value of the equity interest of the subsidiary acquired less the consideration paid by the employee. The cost of the equity-settled transaction is recognised as an employee benefit expense, together with a corresponding increase in equity of the subsidiary, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for the equity-settled transaction at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired. The charge to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Employee benefits *(Continued)*

(b) Retirement benefit schemes

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

(v) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(w) Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Foreign currencies *(Continued)*

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currency of the Company and certain subsidiaries is Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rate prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and subsidiaries which have Hong Kong dollar as their functional currency are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and these subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rate for the year.

(x) Asset acquisitions

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Group chooses to apply a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

In the process of applying the Group's accounting policies, management has made the following key judgements, estimations and assumptions, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(b) Useful lives and residual values of property, plant and equipment

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge when useful lives and residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

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

(c) Impairment of inventories

Impairment of inventories is made based on the assessment of net realisable value, which is the amount the inventories are expected to realise. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period. Significant management estimates are required in the estimates. When the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying values of inventories and the amount of impairment/reversal in the periods in which such estimates have been changed.

The net carrying amount of inventories as at 31 December 2021 was RMB64,051,000 (2020: RMB78,209,000), details of which are set out in note 21 to the consolidated financial statements.

(d) Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables, by applying ECL rates to different ageing groups of customers. The ECL rate of each ageing group is determined by the Group based on the average of historical incurred credit loss experience on each ageing group in the past years and, where material, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's historical credit loss experience and forecast of economic conditions may not be representative of a customer's actual default in the future and significant management estimates are required in the estimates. When the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying amounts of trade receivables and the amount of ECLs provided or reversed in the periods in which such estimates have been changed. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to the consolidated financial statements.

(e) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to tax losses was recognised as at 31 December 2021 and 2020. The amount of unrecognised tax losses as at 31 December 2021 was RMB20,226,000 (2020: RMB7,503,000). Further details are contained in note 20 to the financial statements.

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the cigarette packaging products segment manufactures and sells cigarette packaging products and provides related processing service in Mainland China;

(b) the new energy operation segment engages in the production and sale of steam for industrial use, heating and electricity in Mainland China; and

(c) the household paper products segment trades household paper products in Mainland China.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs as well as head office and corporate income and expenses are excluded from such measurement.

Segment revenue and results

	Cigarette packaging products		**New energy operation**		**Household paper products**		**Total**	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue *(note 7)*								
Revenue from external customers	**165,146**	217,468	**156,605**	115,379	**170,663**	235,854	**492,414**	568,701
Segment results	**(15,203)**	511	**55,704**	22,783	**16,712**	5,037	**57,213**	28,331
Bank interest income							**830**	291
Corporate and other unallocated expenses							**(12,363)**	(14,592)
Finance costs							**(3,649)**	(7,658)
Profit before income tax							**42,031**	6,372

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

6. OPERATING SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

Segment assets and liabilities information is not disclosed as they are not regularly reviewed by the chief operating decision maker.

Other segment information

	Cigarette packaging products		New energy operation		Household paper products		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Depreciation of items of property, plant and equipment								
– Operating segments	**2,569**	3,396	**3,003**	–	**–**	–	**5,572**	3,396
– Amount unallocated							**40**	31
							5,612	3,427
Depreciation of investment property	**264**	264	**–**	–	**–**	–	**264**	264
Depreciation of right-of-use assets								
– Operating segments	**326**	325	**10,003**	10,754	**–**	–	**10,329**	11,079
– Amount unallocated							**1,016**	558
							11,345	11,637
Amortisation of computer software	**19**	27	**–**	–	**–**	–	**19**	27
Impairment/(reversal of impairment) of trade receivables, net	**10,374**	–	**(1,283)**	1,283	**–**	–	**9,091**	1,283
Capital expenditure*								
– Operating segments	**95**	1,505	**256,621**	11,829	**–**	–	**256,716**	13,334
– Amount unallocated							**5**	2,250
							256,721	15,584

* Capital expenditure consists of prepayments for and additions to property, plant and equipment, and additions to right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

6. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

No geographical information is presented as the Group's revenue is solely derived from Mainland China and more than 90% of the Group's non-current assets were located in Mainland China.

Information about major customers

Revenue generated from each of the major customers who individually contributed 10% or more to the Group's total revenue for the years ended 31 December 2021 and 2020 is set out below:

	2021	2020
	RMB'000	*RMB'000*
Cigarette packaging products segment:		
Customer A	**63,349**	79,427
Customer B	**N/A**	58,072
New energy operation segment:		
Customer C	**71,025**	N/A

Note: N/A represents that the revenue from the particular customer for the particular year accounted for less than 10% of the Group's revenue for the particular year.

7. REVENUE

An analysis of the Group's revenue is as follows:

	2021	2020
	RMB'000	*RMB'000*
Sales of goods	**491,423**	550,059
Processing service income	**991**	18,642
	492,414	568,701

7. REVENUE *(Continued)*

Notes:

(a) Disaggregated revenue information

Year ended 31 December 2021

Segments	Cigarette packaging products *RMB'000*	New energy operation *RMB'000*	Household paper products *RMB'000*	Total *RMB'000*
Type of goods or services				
Sale of cigarette packaging products:				
– Transfer metallised paper	151,118	–	–	151,118
– Laminated metallised paper	13,037	–	–	13,037
	164,155	–	–	164,155
Processing service income	991	–	–	991
Sale of steam for industrial use and heating and electricity	–	156,605	–	156,605
Sale of household paper products	–	–	170,663	170,663
Total revenue from contracts with customers	165,146	156,605	170,663	492,414
Timing of revenue recognition				
Goods transferred as point in time	164,155	–	170,663	334,818
Goods transferred over time	–	156,605	–	156,605
Services transferred over time	991	–	–	991
Total revenue from contracts with customers	165,146	156,605	170,663	492,414

Geographical market

All revenue from contracts with customers were generated in Mainland China.

7. REVENUE *(Continued)*

Notes: (Continued)

(a) Disaggregated revenue information *(Continued)*

Year ended 31 December 2020

Segments	Cigarette packaging products *RMB'000*	New energy operation *RMB'000*	Household paper products *RMB'000*	Total *RMB'000*
Type of goods or services				
Sale of cigarette packaging products:				
– Transfer metallised paper	177,956	–	–	177,956
– Laminated metallised paper	20,870	–	–	20,870
	198,826	–	–	198,826
Processing service income	18,642	–	–	18,642
Sale of steam for industrial use and heating and electricity	–	115,379	–	115,379
Sale of household paper products	–	–	235,854	235,854
Total revenue from contracts with customers	217,468	115,379	235,854	568,701
Timing of revenue recognition				
Goods transferred as point in time	198,826	–	235,854	434,680
Goods transferred over time	–	115,379	–	115,379
Services transferred over time	18,642	–	–	18,642
Total revenue from contracts with customers	217,468	115,379	235,854	568,701

Geographical market

All revenue from contracts with customers were generated in Mainland China.

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the cigarette packaging products, steam for industrial use, heating, electricity and household paper products and payment is generally due within 30 to 150 days from delivery. For new customers, payment in advance is normally required. Some household paper products sales contracts provide customers with volume rebates which give rise to variable consideration subject to constraint.

Processing services

Revenue from provision of processing services is recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(c) The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) of RMB23,245,000 (2020: RMB45,921,000) as at 31 December 2021 are expected to be recognised as revenue from contracts with customers within one year. The amount disclosed does not include variable consideration which is constrained.

8. OTHER INCOME AND GAINS

An analysis of the Group's other income and gains is as follows:

	2021	2020
	RMB'000	*RMB'000*
Bank interest income	**830**	291
Rental income	**934**	934
Subsidy income *(note 28)*	**233**	146
Government grants*	**4,059**	617
Other income	**3,222**	130
Gain on disposal of property, plant and equipment	**–**	89
Gain on lease modification	**36**	–
Net foreign exchange gains	**–**	418
	9,314	2,625

* For the year ended 31 December 2021, the Group obtained government grants from the PRC government supporting the Group's vocational skills training and research and development of new anti-counterfeiting paper and stabilising. For the year ended 31 December 2020, the Group obtained government grants from the PRC government supporting the Group's research and development of new anti-counterfeiting paper, stabilising, and also obtained grants from Employment Support Scheme under the Anto-epidemic Fund launched by the government of Hong Kong Special Administrative Region supporting the payroll of the Group's employees in Hong Kong. There were no conditions to be fulfilled or contingencies related to these grants for both years.

9. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2021	2020
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**3,354**	7,381
Interest on lease liabilities *(note 18(b))*	**295**	277
	3,649	7,658

10. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging/(crediting):

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold		**363,809**	442,592
Depreciation of items of property, plant and equipment	*16*	**5,612**	3,427
Less: Amount included in cost of inventories sold		**(4,354)**	(2,114)
		1,258	1,313
Depreciation of right-of-use assets	*18(a)*	**11,345**	11,637
Less: Amount included in cost of inventories sold		**(10,071)**	(10,822)
		1,274	815
Depreciation of investment property#	*17*	**264**	264
Amortisation of computer software*	*19*	**19**	27
Lease payments not included in the measurement of lease liabilities*	*18(c)*	**61**	59
Auditor's remuneration*			
– annual audit		**1,433**	1,300
– other services		**372**	–
		1,805	1,300
Impairment of trade receivables, net	*22(b)*	**9,091**	1,283
Employee benefit expenses^ (excluding directors' remuneration – *(note 11)*):			
– Salaries, bonus and benefits in kind		**20,271**	16,557
– Retirement benefit scheme contribution		**2,153**	1,306
		22,424	17,863
Less: Amount included in cost of inventories sold		**(9,814)**	(7,676)
		12,610	10,187
Loss on disposal on property, plant and equipment#		**16**	–
Research and development costs#		**7,337**	8,047

* This item is included in "Administrative expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

This item is included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

^ During the financial year ended 31 December 2021, no contribution was forfeited (by the Group on behalf of its employees who leave the scheme prior to vesting fully in such contributions) under the retirement benefit schemes which may be used by the Group to reduce the contribution payable in the future years. Accordingly, no forfeited contribution was utilised during the year, and as at 31 December 2021, there was no forfeited contribution available to reduce the Group's future level of contributions to the retirement benefit schemes.

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31 December 2021

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing The Listing of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021	2020
	RMB'000	*RMB'000*
Fees	**2,447**	4,124
Other emoluments:		
Retirement benefit schemes	**27**	23
	2,474	4,147

An analysis of the directors' remuneration, on a named basis, is as follows:

For the year ended 31 December 2021

	Fees	Salaries, allowances and benefits in kind	Defined contribution scheme contributions	Share-based compensation expense	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Chen Shuming	–	–	–	–	–
Mr. Chen Xiaolong	512	–	15	–	527
Ms. Chen Xiaoyan	398	–	–	–	398
Mr. Hu Enfeng	497	–	–	–	497
Ms. Wu Cheuk Yan	758	–	12	–	770
Mr. Zhang Shihua	50	–	–	–	50
	2,215	–	27	–	2,242
Independent non-executive directors					
Mr. Chan Yee Ping Michael*	11	–	–	–	11
Mr. Chen Hua	50	–	–	–	50
Mr. Zhao Zhendong	50	–	–	–	50
Mr. Chin Chi Ho Stanley#	121	–	–	–	121
	232	–	–	–	232
	2,447	–	27	–	2,474

* Mr. Chan Yee Ping Michael was resigned as an independent non-executive director on 1 February 2021.

Mr. Chin Chi Ho Stanley was appointed as an independent non-executive director on 1 February 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

11. DIRECTORS' REMUNERATION *(Continued)*

For the year ended 31 December 2020

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Share-based compensation expense *RMB'000*	Total remuneration *RMB'000*
Executive directors					
Mr. Chen Shuming	1,332	–	–	–	1,332
Mr. Chen Xiaolong	549	–	16	–	565
Ms. Chen Xiaoyan	426	–	–	–	426
Mr. He Guangrui@	533	–	–	–	533
Mr. Hu Enfeng	533	–	–	–	533
Ms. Wu Cheuk Yan^	450	–	7	–	457
Mr. Zhang Shihua	53	–	–	–	53
	3,876	–	23	–	3,899
Independent non-executive directors					
Mr. Chan Yee Ping Michael	142	–	–	–	142
Mr. Chen Hua	53	–	–	–	53
Mr. Zhao Zhendong	53	–	–	–	53
	248	–	–	–	248
	4,124	–	23	–	4,147

@ Mr. He Guangrui was retired as an executive director on 24 June 2020.

^ Ms. Wu Cheuk Yan was appointed as an executive director on 24 June 2020.

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12. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, four (2020: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one (2020: two) individuals were as follows:

	2021	2020
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**518**	1,161
Retirement benefit schemes	**11**	16
	529	1,177

Note: Two directors and one non-director highest paid individual have the same emoluments during the year ended 31 December 2020.

The number of non-director highest paid individuals whose remuneration fell within the following band is as follows:

	Number of employees	
	2021	2020
Nil to HK$1,000,000 (equivalent to Nil to RMB829,000)	**1**	2

No emoluments were paid by the Group to any of the five highest paid individuals of the Company as (i) bonuses which are discretionary or based on the performance of the Company, the Group or any member of the Group; (ii) an inducement to join or upon joining the Group; or (iii) compensation for loss of office for the years ended 31 December 2021 and 2020.

13. INCOME TAX EXPENSE

An analysis of the Group's income tax is as follows:

	2021	2020
	RMB'000	*RMB'000*
Current tax – Mainland China		
– tax for the year	**18,110**	6,869
– overprovision in respect of prior years	**(350)**	(20)
Income tax expense	**17,760**	6,849

No provision for Hong Kong profits tax has been made for the year ended 31 December 2021 as the Group did not generate any assessable profits arising in Hong Kong during the year (2020: Nil).

Taxes on profits assessable in Mainland China have been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the prevailing legislation, interpretations and practices in respect thereof.

13. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the years ended 31 December 2021 and 2020 can be reconciled to the profit before income tax expense per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021	2020
	RMB'000	*RMB'000*
Profit before income tax	**42,031**	6,372
Tax expense at the statutory tax rates	**12,847**	3,393
Additional tax deduction on research and development expenses	**(825)**	(905)
Tax effect of revenue not taxable for tax purposes	**(39)**	(700)
Tax effect of expenses not deductible for tax purposes	**3,869**	4,434
Overprovision of income tax expense in respect of prior years	**(350)**	(20)
Tax effect of tax losses not recognised	**2,258**	647
Income tax expense	**17,760**	6,849

14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings (2020: loss) per share attributable to the owners of Company is based on the following data:

	2021	2020
	RMB'000	*RMB'000*
Earnings/(loss)		
Profit/(loss) for the year attributable to owners of the Company	**24,361**	(527)

	2021	2020
Number of shares		
Weighted average number of ordinary shares	**508,081,979**	500,000,000

Diluted earnings/(loss) per share amount was the same as basic earnings/(loss) per share amount as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2021 and 2020.

15. DIVIDEND

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings *RMB'000*	Machinery *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2021						
At 1 January 2021:						
Cost	**32,298**	**17,804**	**2,482**	**3,467**	**–**	**56,051**
Accumulated depreciation	**(12,823)**	**(14,911)**	**(2,109)**	**(1,685)**	**–**	**(31,528)**
Net carrying amount	**19,475**	**2,893**	**373**	**1,782**	**–**	**24,523**
Net carrying amount:						
At 1 January 2021	**19,475**	**2,893**	**373**	**1,782**	**–**	**24,523**
Acquired through acquisition of a subsidiary *(note 34)*	**62,103**	**136,594**	**249**	**54**	**8,000**	**207,000**
Additions	**–**	**4,431**	**38**	**–**	**321**	**4,790**
Disposals	**–**	**(379)**	**–**	**–**	**–**	**(379)**
Transfer	**–**	**321**	**–**	**–**	**(321)**	**–**
Depreciation provided during the year	**(2,015)**	**(3,209)**	**(216)**	**(172)**	**–**	**(5,612)**
Exchange adjustment	**–**	**–**	**(5)**	**–**	**–**	**(5)**
At 31 December 2021	**79,563**	**140,651**	**439**	**1,664**	**8,000**	**230,317**
At 31 December 2021:						
Cost	**94,401**	**157,614**	**2,767**	**3,521**	**8,000**	**266,303**
Accumulated depreciation	**(14,838)**	**(16,963)**	**(2,328)**	**(1,857)**	**–**	**(35,986)**
Net carrying amount	**79,563**	**140,651**	**439**	**1,664**	**8,000**	**230,317**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Plant and buildings *RMB'000*	Machinery *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Year ended 31 December 2020					
At 1 January 2020:					
Cost	32,298	19,044	2,255	2,011	55,608
Accumulated depreciation	(11,219)	(14,648)	(1,619)	(1,471)	(28,957)
Net carrying amount	21,079	4,396	636	540	26,651
Net carrying amount:					
At 1 January 2020	21,079	4,396	636	540	26,651
Additions	–	–	246	1,456	1,702
Disposals	–	(393)	–	–	(393)
Depreciation provided during the year	(1,604)	(1,110)	(499)	(214)	(3,427)
Exchange adjustment	–	–	(10)	–	(10)
At 31 December 2020	19,475	2,893	373	1,782	24,523
At 31 December 2020:					
Cost	32,298	17,804	2,482	3,467	56,051
Accumulated depreciation	(12,823)	(14,911)	(2,109)	(1,685)	(31,528)
Net carrying amount	19,475	2,893	373	1,782	24,523

Note: At 31 December 2021, certain of the Group's plant and buildings with an aggregate net carrying amount of RMB12,809,000 (2020: RMB13,927,000) were pledged to secure general banking facilities granted to the Group (note 27(a)).

17. INVESTMENT PROPERTY

	2021	2020
	RMB'000	*RMB'000*
At 1 January:		
Cost	**6,618**	6,618
Accumulated depreciation	**(2,268)**	(2,004)
Net carrying amount	**4,350**	4,614
Net carrying amount:		
At 1 January	**4,350**	4,614
Depreciation provided during the year	**(264)**	(264)
At 31 December	**4,086**	4,350
At 31 December		
Cost	**6,618**	6,618
Accumulated depreciation	**(2,532)**	(2,268)
Net carrying amount	**4,086**	4,350

The Group's investment property is a portion of the Group's staff quarter which is located in Hubei province, the PRC and leased to a third party for rental income. The fair value of investment property as at 31 December 2021 was RMB11,920,000 (2020: RMB11,877,000), which has been arrived at on the basis of a valuation carried out on that date by an independent professional qualified valuer using the direct comparison method. The valuation was arrived at by reference to comparable market transactions for similar properties. The fair value measurement of the Group's investment property is using significant unobservable inputs (Level 3) as defined in HKFRS 13.

At 31 December 2021 and 2020, the investment property was pledged as collateral for bank facilities granted to the Group (note 27(a)).

18. LEASES

The Group as a lessor

The Group leases its investment property (note 17) in Hubei province, the PRC under an operating lease arrangement. Rental income recognised by the Group during the year was RMB934,000 (2020: RMB934,000), details of which are included in note 8 to the consolidated financial statements.

At 31 December 2021 and 2020, the undiscounted lease payments receivable by the Group in future periods under the non-cancellable operating lease with its tenant are as follows:

	2021	2020
	RMB'000	*RMB'000*
Within one year	**934**	934
After one year but within two years	**934**	934
After two years but within three years	**233**	934
After three years but within four years	**–**	233
Total	**2,101**	3,035

The Group as a lessee

The Group has lease arrangements as a lessee for various items of land, office premises, plant and equipment and staff quarter.

Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 41 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises and staff quarter have a lease term of 2 years, while that of plant and equipment has a lease term of 1 year and 1 day. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

18. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land *RMB'000*	Office premises *RMB'000*	Plant and equipment *RMB'000*	Staff quarter *RMB'000*	Total *RMB'000*
At 1 January 2020	11,039	28	10,754	–	21,821
Additions	–	455	11,829	1,598	13,882
Depreciation provided during the year	(325)	(240)	(10,754)	(318)	(11,637)
Exchange adjustments	–	13	–	18	31
At 31 December 2020 and 1 January 2021	**10,714**	**256**	**11,829**	**1,298**	**24,097**
Acquired through acquisition of a subsidiary *(note 34)*	**40,000**	**–**	**–**	**–**	**40,000**
Additions					
Depreciation provided during the year	**(470)**	**(225)**	**(9,858)**	**(792)**	**(11,345)**
Effect on lease modification	**–**	**–**	**(1,971)**	**–**	**(1,971)**
Exchange adjustments	**–**	**(3)**	**–**	**(20)**	**(23)**
At 31 December 2021	**50,244**	**28**	**–**	**486**	**50,758**

As at 31 December 2021, certain of the Group's leasehold land included in the right-of-use assets with an aggregate net carrying amount of RMB10,388,000 (2020: RMB10,714,000) were pledged as collateral for bank facilities granted to the Group (note 27(a)).

18. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) Lease liabilities

The carrying amount of the Group's lease liabilities and the movements during the year are as follows:

	2021	2020
	RMB'000	*RMB'000*
At 1 January	**13,301**	10,784
Additions	**–**	13,852
Interest expenses *(note 9)*	**295**	277
Lease payments	**(11,118)**	(11,646)
Effect on lease modification	**(2,007)**	–
Exchange adjustments	**(22)**	34
At 31 December	**449**	13,301

The maturity analysis of the lease liabilities is disclosed in note 40(d) to the consolidated financial statements.

The present value of future lease payments are analysed as:

	2021	2020
	RMB'000	*RMB'000*
Current liabilities	**449**	12,840
Non-current liabilities	**–**	461
	449	13,301

(c) Other lease information

The amounts recognised in profit or loss in relation to leases are as follows:

	2021	2020
	RMB'000	*RMB'000*
Interest on lease liabilities	**295**	277
Depreciation of right-of-use assets	**11,345**	11,637
Expense relating to short-term leases	**61**	59
Total amount recognised in profit or loss	**11,701**	11,973

19. COMPUTER SOFTWARE

	2021	2020
	RMB'000	*RMB'000*
At 1 January	**66**	93
Amortisation provided during the year	**(19)**	(27)
At 31 December	**47**	66

20. DEFERRED TAX

(a) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China.

At 31 December 2021 and 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. As at 31 December 2021, the aggregate temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised amounted to RMB102,675,000 (2020: RMB75,641,000).

(b) The Group has tax losses arising in Mainland China of RMB20,226,000 (2020: RMB7,503,000) that will expire in one to five years for offsetting against future taxable profits.

During the year, deferred tax assets have not been recognised in respect of these losses as the future profitability of the subsidiaries from which these tax losses arose is not assured and hence it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

21. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**50,945**	54,500
Work in progress	**2,040**	1,536
Finished goods	**11,066**	22,173
	64,051	78,209

22. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**106,496**	170,348
Less: Impairment *(note (b))*	**(14,267)**	(5,176)
Trade receivables – net	**92,229**	165,172
Bills receivables	**1,150**	–
	93,379	165,172

Notes:

(a) The Group's trading terms with its customers for the sale of goods and provision of processing services are mainly on credit. For new customers, payment in advance is normally required. The credit period is generally 30 to 150 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2021 RMB'000	2020 RMB'000
Within 1 month	**54,404**	52,514
1 to 2 months	**19,594**	47,208
2 to 3 months	**6,394**	27,268
3 to 4 months	**5,740**	21,648
Over 4 months	**7,247**	16,534
	93,379	165,172

22. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(b) The movement in provision for impairment of trade receivables is as follows:

	2021	2020
	RMB'000	*RMB'000*
At 1 January	**5,176**	3,893
Impairment recognised, net	**9,091**	1,283
At 31 December	**14,267**	5,176

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the average of historical incurred credit loss experience on each ageing group of trade receivables. Generally, trade receivables are written off if they are not considered recoverable by the Group and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2021

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Category:					
(i) Customers with good credit	**83,908**	**5,761**	**1,625**	**6,125**	**97,419**
(ii) Customers with credit deterioration	**–**	**–**	**–**	**10,227**	**10,227**
Gross trade receivables	**83,908**	**5,761**	**1,625**	**16,352**	**107,646**
Less: Expected credit losses	**(324)**	**(676)**	**(317)**	**(12,950)**	**(14,267)**
Net trade receivables	**83,584**	**5,085**	**1,308**	**3,402**	**93,379**
ECL rate	**0.4%**	**11.7%**	**19.5%**	**79.2%**	**13.3%**

As at 31 December 2020

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Category:					
(i) Customers with good credit	106,640	24,022	23,644	13,666	167,972
(ii) Customers with credit deterioration	–	–	–	2,376	2,376
Gross trade receivables	106,640	24,022	23,644	16,042	170,348
Less: Expected credit losses	(143)	(463)	(881)	(3,689)	(5,176)
Net trade receivables	106,497	23,559	22,763	12,353	165,172
ECL rate	0.1%	1.9%	3.7%	23.0%	3.0%

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Deposits and other receivables	**32,010**	5,539
Prepayments	**12,552**	14,917
	44,562	20,456

Note: The financial assets included in the above balances relate to receivables for which there was no recent history of default. At 31 December 2021 and 2020, the loss allowance was assessed to be minimal.

24. RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	2021	2020
	RMB'000	*RMB'000*
Cash and bank balances	**176,437**	115,180
Less: Restricted cash *(note (c))*	**(26,641)**	(48,721)
Cash and cash equivalents	**149,796**	66,459

Notes:

(a) At 31 December 2021, the cash and bank balances of the Group denominated in RMB amounted to RMB174,911,000 (2020: RMB108,217,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(c) At 31 December 2021, a bank deposit of RMB26,641,000 (2020: RMB48,721,000) was pledged to a bank for the issuance of bank acceptance notes in respect of future settlement to suppliers of the Group (note 25(b)).

25. TRADE AND BILLS PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables *(note (a))*	**73,747**	96,667
Bills payables *(note (b))*	**52,144**	78,712
	125,891	175,379

Notes:

(a) The trade payables are non-interest bearing and are normally settled on 30-day terms.

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

	2021 RMB'000	2020 RMB'000
Within 1 month	**82,577**	122,360
1 to 2 months	**14,078**	22,771
2 to 3 months	**5,628**	6,604
Over 3 months	**23,608**	23,644
	125,891	175,379

(b) The bills payables are secured by a bank deposit of RMB26,641,000 (2020: RMB48,721,000) pledged to a bank (note 24).

26. OTHER PAYABLES AND ACCRUALS

	Notes	**2021** **RMB'000**	2020 RMB'000
Contract liabilities	(a)	**23,478**	46,154
Refund liabilities		**4,754**	5,584
Interest payables		**8,812**	6,023
Amounts due to directors	(b)	**205**	420
Amount due to the ultimate holding company	(b)	**1,198**	1,200
Amount due to a company controlled by a former director	(d)	**–**	2,976
Amount due to a company controlled by a director of a subsidiary	(b)	**3,900**	–
Amount due to a director of a subsidiary	(b)	**4,512**	–
Amount due to a former shareholder of a subsidiary	(c)	**43,701**	–
Other payables to contractors	(e)	**14,873**	–
Other payables		**17,941**	3,729
Accruals		**4,352**	5,029
Total other payables and accruals		**127,726**	71,115
Less: Non-current liabilities	(e)	**(2,340)**	–
Current liabilities		**125,386**	71,115

Movements in contract liabilities are as follows:

	2021 **RMB'000**	2020 RMB'000
As at 1 January	**46,154**	32,380
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(46,154)**	(32,331)
Increase in contract liabilities as a result of receiving deposits	**23,478**	46,105
As at 31 December	**23,478**	46,154

Notes:

(a) Contract liabilities as at 31 December 2021 and 2020 represented advance payments received from customers for the sale of steam, heating and household paper products which will be recognised as revenue as the performance obligation is satisfied.

(b) The amounts due to directors, the ultimate holding company, a company controlled by a director of a subsidiary and a director of a subsidiary as at 31 December 2021 and 2020 are unsecured, interest-free and repayable on demand.

(c) The amount due to a former shareholder of a subsidiary is unsecured, interest-free and the former shareholder has agreed not to demand repayment of such amount up to 31 October 2022.

(d) The amount due to a company controlled by a former director was unsecured, interest free and fully settled during the year.

(e) The balance as at 31 December 2021 represented construction costs payables to contractors of which the amounts of RMB12,533,000 are expected to be repaid in 2022. The remaining balances of RMB2,340,000 are not expected to be settled in the next financial year and have been classified as non-current liabilities.

27. BANK AND OTHER BORROWINGS

		2021			2020		
	Notes	**Interest rate per annum (%)**	**Maturity**	**Total RMB'000**	Interest rate per annum (%)	Maturity	Total RMB'000
Bank and other borrowings repayable on demand:							
Bank loan – secured	*(a)*	**3.85**	**2022**	**8,500**	3.7	2021	15,000
Other loan – secured	*(b), (c)*	**9**	**2022**	**32,636**	18	2021	33,462
				41,136			48,462

Notes:

(a) The Group obtained bank facilities in an aggregate amount of RMB45,000,000 (2020: RMB45,000,000), of which RMB8,500,000 (2020: RMB15,000,000) had been utilised as at the end of the reporting period. The bank facilities are secured by the following assets:

	Notes	**2021 RMB'000**	2020 RMB'000
Property, plant and equipment	*16*	**12,809**	13,927
Investment property	*17*	**4,086**	4,350
Right-of-use assets	*18*	**10,388**	10,714
		27,283	28,991

(b) The Group's other loan as at 31 December 2021 and 2020 was borrowed from an independent third party to provide additional working capital to the cigarette packaging material operation of the Group. The loan is denominated in Hong Kong dollar, secured by the Group's entire equity interest in a wholly-owned subsidiary and repayable by 24 January 2021.

For the year ended 31 December 2019, pursuant to the first supplemental agreement to the loan agreement entered into between the Company and the lender, the lender agreed to waive the loan interest for the first 12-month period, which amounted to HK$3,363,000 (equivalent to RMB2,967,000).

For the year ended 31 December 2020, pursuant to the second supplemental agreement to the loan agreement entered into between the Company and the lender, the loan interest rate has been increased to 18% per annum, which the loan interest is amounted to HK$7,200,000 (equivalent to RMB6,393,000).

For the year ended 31 December 2021, pursuant to the third supplemental agreement to the loan agreement entered into between the Company and the lender, the loan interest rate has been revised to 9% per annum, which the loan interest is amounted to HK$3,600,000 (equivalent to RMB2,983,000).

Subsequent to the reporting date on 24 January 2022, the Company entered into the fourth supplemental agreement to the loan agreement with the lender, pursuant to which the lender agreed to extend the loan repayment date to 24 January 2023 and other terms of the loan remain unchanged.

(c) The loan agreement of the other loan as at 31 December 2021 contains a repayment on demand clause and the expected repayment date of this loan as set out in the loan agreement is in January 2022 (2020: January 2021).

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28. DEFERRED GOVERNMENT GRANTS

	2021	2020
	RMB'000	*RMB'000*
As at 1 January	**798**	944
Addition through acquisition of a subsidiary *(note 34)*	**24,178**	–
Amortisation provided for the year	**(233)**	(146)
As at 31 December	**24,743**	798
Current liabilities	**524**	–
Non-current liabilities	**24,219**	798
	24,743	798

The balance as at 31 December 2021 included subsidies received from various government authorities in Mainland China for the purchase of plant and machinery to support the development of the cigarette packaging products business of the Group, and the purchase of land to support the development of the new energy operation business of the Group. The balance as at 31 December 2020 included subsidies received from various government authorities in Mainland China for the purchase of plant and machinery to support the development of the cigarette packaging products business of the Group.

The subsidies are interest-free and will be amortised over the expected useful lives of the relevant assets in accordance with the Group's accounting policy set out in note 4(r) to these financial statements.

29. SHARE CAPITAL

		2021			2020	
	Number	***HK$'000***	***RMB'000 equivalent***	*Number*	*HK$'000*	*RMB'000 equivalent*
Authorised:						
Ordinary shares of HK$0.01 each	**1,000,000,000**	**10,000**		1,000,000,000	10,000	
Issued and fully paid:						
Ordinary shares of HK$0.01 each						
At the beginning of the year	**500,000,000**	**5,000**	**4,459**	500,000,000	5,000	4,459
Shares issued on acquisition of a subsidiary *(note 34)*	**46,092,537**	**461**	**379**	–	–	–
At the end of the year	**546,092,537**	**5,461**	**4,838**	500,000,000	5,000	4,459

30. RESERVES

The Group

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The merger reserve represents the difference between (i) the amounts at which the assets and liabilities are recorded under a business combination under common control in prior years, net of any reserves of the acquired entities; and (ii) the fair value of consideration paid for the business combination.

(c) The PRC statutory reserve is the reserve set aside in accordance with the PRC Companies Law as applicable to the Group's subsidiaries established in Mainland China. None of the Group's PRC statutory reserve as at 31 December 2021 and 2020 was distributable in the form of cash dividends.

The Company

	Share premium account	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	63,065	56,341	4,723	(38,465)	85,664
Loss for the year	–	–	–	(19,620)	(19,620)
Other comprehensive income	–	–	(743)	–	(743)
At 31 December 2020 and 1 January 2021	**63,065**	**56,341**	**3,980**	**(58,085)**	**65,301**
Loss for the year	**–**	**–**	**–**	**(13,930)**	**(13,930)**
Other comprehensive income	**–**	**–**	**(872)**	**–**	**(872)**
Shares issued as the consideration of acquisition of a subsidiary *(note 34)*	**97,048**	**–**	**–**	**–**	**97,048**
At 31 December 2021	**160,113**	**56,341**	**3,108**	**(72,015)**	**147,547**

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31. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**121**	159
Right-of-use assets		**487**	1,298
Investment in subsidiaries	*32*	**60,764**	60,764
Total non-current assets		**61,372**	62,221
CURRENT ASSETS			
Prepayments and deposits		**131**	2,922
Amounts due from subsidiaries		**152,308**	57,154
Cash and bank balances		**1,404**	6,666
Total current assets		**153,843**	66,742
CURRENT LIABILITIES			
Other payables and accruals		**13,622**	7,286
Amounts due to subsidiaries		**16,151**	17,241
Other borrowing	*27*	**32,636**	33,462
Lease liabilities		**421**	782
Total current liabilities		**62,830**	58,771
NET CURRENT ASSETS		**91,013**	7,971
NON-CURRENT LIABILITIES			
Lease liabilities		**–**	432
NET ASSETS		**152,385**	69,760
EQUITY			
Share capital	*29*	**4,838**	4,459
Reserves	*30*	**147,547**	65,301
TOTAL EQUITY		**152,385**	69,760

On behalf of the Board

Chen Shuming
Director

Hu Enfeng
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries, which are all indirectly held by the Company, as at 31 December 2021 and 2020 are as follows:

Name of subsidiaries	Place of registration/ operations	Paid up capital	Effective interest held by the Company 2021	2020	Principal activities
湖北盟科紙業有限公司^	PRC/Mainland China	RMB24,000,000	**100%**	100%	Manufacture and sale of cigarette packaging materials and provision of related processing services
冠均華盈(山東)新能源有限公司* ("ShanDong New Energy")	PRC/Mainland China	–	**97%**	97%	Production and sale of steam for industrial use and heating and electricity
冠均(山東)貿易有限公司*	PRC/Mainland China	–	**100%**	100%	Trading of household paper products
冠均(濟南)日用品有限公司#	PRC/Mainland China	–	**100%**	100%	Trading of household paper products
中煤東能(山東)清潔能源有限公司@ ("China Coal")	PRC/Mainland China	–	**49.47%**	N/A	Leasing of plant and equipment to a group company

^ This entity is registered as a wholly-foreign-owned enterprise under PRC law.

* These entities are registered as limited liability companies under PRC Law and each of them has a registered capital of RMB50,000,000 which should be fully paid up by 31 December 2030. At the date of approval of these financial statements, no capital has been paid up for each of these entities.

This entity is registered as a limited liability companies under PRC Law and has a registered capital of RMB10,000,000 which should be fully paid up by 24 September 2029. At the date of approval of these financial statements, no capital has been paid up for the entity.

@ This entity was newly acquired by the Group during the year. This entity is registered as a limited liability companies under PRC Law and has a registered capital of RMB200,000,000 which should be fully paid up by 31 December 2050. At the date of approval of these financial statements, RMB110,000,000 has been paid up for the entity.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. NON-CONTROLLING INTERESTS

China Coal, a 49.47% owned subsidiary of the Company, has material non-controlling interests ("NCI"). The NCI of another subsidiary that is not 100% owned by the Group is considered to be immaterial.

Summarised financial information in relation to China Coal, before intra-group eliminations, is presented below together with amounts attributable to NCI:

	From acquisition date to 31 December 2021
	RMB'000
Revenue	**2,018**
Loss for the period	**(1,756)**
Total comprehensive income	**(1,756)**
Loss allocated to NCI	**(888)**
Dividend paid to NCI	–
Cash flows from operating activities	**(2,111)**
Cash flows from investing activities	–
Cash flows from financing activities	–
Net cash outflow	**(2,111)**

	As at 31 December 2021
	RMB'000
Non-current assets	**253,347**
Current assets	**20,713**
Current liabilities	**(58,875)**
Non-current liabilities	**(25,908)**
Accumulated NCI	**(92,720)**

34. ACQUISITION OF A SUBSIDIARY

On 8 July 2021, the Group entered into an equity transfer agreement with independent third parties in relation to its acquisition of 51% equity interest in China Coal, a company engaged in leasing of its plant and equipment to ShanDong New Energy.

The gross assets of China Coal acquired was concentrated in a single identifiable asset, therefore, the acquisition was accounted for as a purchase of assets and liabilities as the operation of China Coal did not constitute a business as defined in HKFRS 3 (Revised) "Business Combinations". As the acquisition was considered as a purchase of assets and liabilities and the consideration was settled by the issuance of the Company's shares, the acquisition was considered as a share-based payment transaction to non-employees in accordance with HKFRS 2 "Share-based Payment". The transaction was completed on 27 October 2021 (the "acquisition date"). The total consideration for the acquisition was RMB97,427,000 and was settled through allotment and issue of 46,092,537 new shares by the Company. The fair value of the consideration as at acquisition date was determined by reference to the fair value of the net assets from China Coal.

Upon the completion of the acquisition, China Coal became an indirectly non-wholly owned subsidiary of the Company.

Details of the fair value of identifiable assets and liabilities acquired and purchase consideration are as follows:

	Fair value
	RMB'000
Property, plant and equipment	207,000
Right-of-use assets	40,000
Trade receivables	3,529
Prepayments and other receivables	23,706
Cash and cash equivalents	93
Other payables and accruals	(57,666)
Income tax payables	(1,449)
Deferred government grants	(24,178)
Total net assets	191,035
Less: NCI	(93,608)
Total consideration	97,427
Consideration satisfied by:	
Equity instruments (46,092,537 ordinary shares of the Company)*	97,427
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	93

* Nominal value of share capital of HK$461,000 (equivalent to RMB379,000) was issued and the excess of the consideration over the nominal value of the shares of HK$117,892,000 (equivalent to RMB97,048,000) was credited to the share premium account of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Save as disclosed in note 34 in respect of the non-cash settlement of the consideration for the acquisition of a subsidiary, no major non-cash transaction was entered by the Group during the year ended 31 December 2021. During the year ended 31 December 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB13,882,000 and RMB13,852,000 respectively in respect of lease arrangements for office premises, plant and equipment and staff quarter.

(b) Changes in liabilities arising from financing activities

	Included in other payables and accruals							
	Amount due to a company controlled by a former director *RMB'000*	Amount due to the ultimate holding company *RMB'000*	Amount due to a company controlled by a director of a subsidiary *RMB'000*	Amount due to a director of a subsidiary *RMB'000*	Amount due to a former shareholder of a subsidiary *RMB'000*	Bank and other borrowings *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2021	2,976	1,200	–	–	–	48,462	13,301	65,939
Changes from cash flows:								
Decrease in amount due to a company controlled by a former director	(2,976)	–	–	–	–	–	–	(2,976)
Increase in amount due to a company controlled by a director of a subsidiary	–	–	3,900	–	–	–	–	3,900
Increase in amount due to a director of a subsidiary	–	–	–	4,450	–	–	–	4,450
Increase in amount due to a former shareholder of a subsidiary	–	–	–	–	1,837	–	–	1,837
Proceeds from bank borrowings	–	–	–	–	–	8,500	–	8,500
Repayment of bank borrowings	–	–	–	–	–	(15,000)	–	(15,000)
Interest paid	–	–	–	–	–	(371)	(295)	(666)
Principal portion of lease payments	–	–	–	–	–	–	(10,823)	(10,823)
Total changes from financing cash flows:	(2,976)	–	3,900	4,450	1,837	(6,871)	(11,118)	(10,778)
Exchange adjustments	–	(2)	–	62	–	(826)	(22)	(788)
Other changes:								
Acquisition of a subsidiary	–	–	–	–	41,864	–	–	41,864
Interest on bank borrowings	–	–	–	–	–	371	–	371
Interest on lease liabilities	–	–	–	–	–	–	295	295
Effect on lease modification	–	–	–	–	–	–	(2,007)	(2,007)
Total other changes	–	–	–	–	41,864	371	(1,712)	40,523
At 31 December 2021	–	1,198	3,900	4,512	43,701	41,136	449	94,896

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Changes in liabilities arising from financing activities *(Continued)*

	Included in other payables and accruals				
	Amount due to a company controlled by a former director	Amount due to the ultimate holding company	Bank and other borrowings	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	1,255	1,208	50,748	10,784	63,995
Changes from cash flows:					
Increase in amount due to a company controlled by a former director	1,721	–	–	–	1,721
Proceeds from bank borrowings	–	–	15,000	–	15,000
Repayment of bank borrowings	–	–	(15,000)	–	(15,000)
Interest paid	–	–	(988)	(277)	(1,265)
Principal portion of lease payments	–	–	–	(11,369)	(11,369)
Total changes from financing cash flows:	1,721	–	(988)	(11,646)	(10,913)
Exchange adjustments	–	(8)	(2,286)	34	(2,260)
Other changes:					
Addition of lease liabilities	–	–	–	13,852	13,852
Interest on bank borrowings	–	–	988	–	988
Interest on lease liabilities	–	–	–	277	277
Total other changes	–	–	988	14,129	15,117
At 31 December 2020	2,976	1,200	48,462	13,301	65,939

36. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in these financial statements, the Group had no other material transactions and outstanding balances with related parties during the years ended 31 December 2021 and 2020 or as at these dates.

36. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management

Remuneration of key management personnel, who are directors of the Company, during the year were disclosed in note 11 to the consolidated financial statements.

37. CONTINGENT LIABILITIES

As at 31 December 2021 and 2020, the Group did not have any significant contingent liabilities.

38. CAPITAL COMMITMENTS

	2021	2020
	RMB'000	*RMB'000*
Commitments for the acquisition of:		
– Property, plant and equipment	**5,160**	–

39. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group as at 31 December 2021 and 2020 are classified as financial assets and liabilities at amortised cost, respectively.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, cash and bank balances. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are (a) interest rate risk; (b) foreign currency risk; (c) credit risk; and (d) liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has minimal use of derivatives and other instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash at banks with floating interest rates.

If interest rates had been 100 basis points (2020: 100 basis point) higher/lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2021 would have increased/decreased by RMB411,000 (2020: loss before tax decreased/increased by RMB485,000).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Foreign currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried in RMB.

(c) Credit risk

Maximum exposure and year-end staging

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the counterparty has good history of repayment, the Group's exposure to bad debts is not significant.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and the year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2021			
Trade receivables*	**–**	**106,496**	**106,496**
Bills receivable	**1,150**	**–**	**1,150**
Financial assets included in prepayments, deposits and other receivables – normal**	**32,010**	**–**	**32,010**
Restricted cash – not yet past due	**26,641**	**–**	**26,641**
Cash and cash equivalents – not yet past due	**149,796**	**–**	**149,796**
At 31 December 2020			
Trade receivables*	–	170,348	170,348
Financial assets included in prepayments, deposits and other receivables – normal**	5,539	–	5,539
Restricted cash – not yet past due	48,721	–	48,721
Cash and cash equivalents – not yet past due	66,459	–	66,459

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22(b) to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings.

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

	Carrying amount *RMB'000*	On demand and within one year *RMB'000*	In the second to the fifth year *RMB'000*	Total contractual undiscounted payments *RMB'000*
At 31 December 2021				
Trade and bills payables	**125,891**	**125,891**	**–**	**125,891**
Other payables and accruals	**104,248**	**101,908**	**2,340**	**104,248**
Bank and other borrowings	**41,136**	**41,346**	**–**	**41,346**
Lease liabilities	**449**	**453**	**–**	**453**
	271,724	**269,598**	**2,340**	**271,938**
At 31 December 2020				
Trade and bills payables	175,379	175,379	–	175,379
Other payables and accruals	24,961	24,961	–	24,961
Bank and other borrowings	48,462	48,955	–	48,955
Lease liabilities	13,301	14,236	464	14,700
	262,103	263,531	464	263,995

At 31 December 2021, the other borrowing classified as repayable on demand was RMB32,636,000 (2020: RMB33,462,000). The directors of the Company considered that it is not likely that the lender will exercise its discretionary right to demand immediate repayment.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to its shareholders or issue new shares to increase capital. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

The Group monitors capital using a gearing ratio, which is total debt divided by the total equity. Total debt includes bank and other borrowings, lease liabilities, amounts due to the ultimate holding company, a company controlled by a former director, a company controlled by a subsidiary's director, a subsidiary's director and a former shareholder of a subsidiary. The gearing ratios as at the end of the reporting periods were as follows:

	Notes	**2021** ***RMB'000***	2020 *RMB'000*
Bank and other borrowings	*27*	**41,136**	48,462
Amount due to the ultimate holding company	*26*	**1,198**	1,200
Amount due to a company controlled by a former director	*26*	**–**	2,976
Amount due to a company controlled by a director of a subsidiary	*26*	**3,900**	–
Amount due to a director of a subsidiary	*26*	**4,512**	–
Amount due to a former shareholder of a subsidiary	*26*	**43,701**	–
Lease liabilities	*18(b)*	**449**	13,301
Total debt		**94,896**	65,939
Total equity		**340,121**	122,708
Gearing ratio		**27.9%**	53.7%

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 April 2022.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified/represented as appropriate, is set out below.

CONSOLIDATED RESULTS

	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	**2021** ***RMB'000***
Revenue	238,310	217,491	530,713	568,701	**492,414**
Gross profit	44,947	32,949	75,668	85,401	**102,858**
(Loss)/profit for the year	4,724	(4,624)	7,741	(477)	**24,271**

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*	2020 *RMB'000*	**2021** ***RMB'000***
Assets					
Non-current assets	49,987	47,454	53,179	53,036	**290,140**
Current assets	269,590	245,735	320,469	379,980	**378,709**
Total assets	319,577	293,189	373,648	433,016	**668,849**
Liabilities					
Current liabilities	201,667	179,549	251,416	309,049	**302,169**
Non-current liabilities	1,236	1,090	944	1,259	**26,559**
Total liabilities	202,903	180,639	252,360	310,308	**328,728**
Equity					
Total equity	116,674	112,550	121,288	122,708	**340,121**