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CHINA SHUN KE LONG HOLDINGS LIMITED

中國順客隆控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 974)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

The board of directors (the “**Board**”, and the members of the Board, the “**Directors**”) of China Shun Ke Long Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2022. The unaudited consolidated results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		%
	2022	2021	
	RMB'000	RMB'000	
Revenue	313,064	408,721	-23.4%
Gross profit	49,706	57,781	-14.0%
Loss for the period	(14,276)	(11,946)	19.5%
	At	At	
	30 June	31 December	
	2022	2021	
	RMB'000	RMB'000	%
Total assets	389,092	481,585	-19.2%
Total liabilities	201,710	280,737	-28.1%

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Revenue	4	313,064	408,721
Cost of inventories sold		<u>(263,358)</u>	<u>(350,940)</u>
Gross profit		49,706	57,781
Other operating income	4	15,613	18,563
Selling and distribution costs		(67,003)	(68,173)
Administrative expenses		(9,828)	(13,286)
Impairment loss recognised in respect of trade receivables		<u>(17)</u>	<u>(954)</u>
Loss from operations	5	(11,529)	(6,069)
Finance costs	6	<u>(2,747)</u>	<u>(5,877)</u>
Loss before tax		(14,276)	(11,946)
Income taxes expenses	7	<u>—</u>	<u>—</u>
Loss for the period		(14,276)	(11,946)
Other comprehensive income, item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements from functional currency to presentation currency		<u>810</u>	<u>272</u>
Loss and total comprehensive expense for the period		<u>(13,466)</u>	<u>(11,674)</u>
(Loss) profit for the period attributable to:			
— Owners of the Company		(14,297)	(11,861)
— Non-controlling interests		<u>21</u>	<u>(85)</u>
		<u>(14,276)</u>	<u>(11,946)</u>
Total comprehensive (expense) income for the period attributable to:			
— Owners of the Company		(13,487)	(11,589)
— Non-controlling interests		<u>21</u>	<u>(85)</u>
		<u>(13,466)</u>	<u>(11,674)</u>
Loss per share — basic and diluted (RMB)	9	<u>(0.05)</u>	<u>(0.04)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2022	31 December 2021
	<i>NOTES</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>10</i>	34,567	36,516
Right-of-use assets	<i>11</i>	95,988	110,756
Investment properties	<i>10</i>	9,188	9,351
Deposits paid		7,530	14,310
		147,273	170,933
Current assets			
Inventories		94,078	107,783
Trade and bills receivables	<i>12</i>	25,359	24,692
Deposits paid, prepayments and other receivables		71,338	74,192
Amounts due from related companies	<i>14</i>	643	642
Cash and cash equivalents		50,401	103,343
		241,819	310,652
Current liabilities			
Trade payable	<i>13</i>	77,333	79,838
Deposits received, receipts in advance, accruals and other payables		30,661	28,036
Lease liabilities	<i>11</i>	24,264	38,169
Contract liabilities		13,257	18,634
Bank borrowings	<i>15</i>	8,000	60,000
Tax payable		—	25
		153,515	224,702
Total current liabilities			
		88,304	85,950
Net current assets			
		235,577	256,883
Total assets less current liabilities			

		30 June	31 December
		2022	2021
	<i>NOTES</i>	RMB'000	RMB'000
		(unaudited)	(audited)
Non-current liability			
Lease liabilities	<i>11</i>	<u>48,195</u>	<u>56,035</u>
Net assets		<u>187,382</u>	<u>200,848</u>
CAPITAL AND RESERVES			
Share capital	<i>16</i>	2,387	2,387
Reserves		<u>183,877</u>	<u>197,364</u>
Equity attributable to owners of the Company		<u>186,264</u>	199,751
Non-controlling interests		<u>1,118</u>	<u>1,097</u>
Total equity		<u>187,382</u>	<u>200,848</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Merger reserve	Capital reserve	Statutory reserve	Capital		Retained earnings	Total	Non-controlling Interests	Total
							contribution reserve	Translation reserve				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
			<i>(Note a)</i>	<i>(Note b)</i>	<i>(Note c)</i>	<i>(Note d)</i>	<i>(Note e)</i>					
At 1 January 2022 (audited)	2,387	169,904	84	(6,200)	200	15,768	873	4,538	12,197	199,751	1,097	200,848
(Loss) profit for the period	—	—	—	—	—	—	—	—	(14,297)	(14,297)	21	(14,276)
Other comprehensive income for the period												
Exchange differences arising on translation of financial statements from functional currency to presentation currency	—	—	—	—	—	—	—	810	—	810	—	810
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	810	(14,297)	(13,487)	21	(13,466)
At 30 June 2022 (unaudited)	2,387	169,904	84	(6,200)	200	15,768	873	5,348	(2,100)	186,264	1,118	187,382
At 1 January 2021 (audited)	2,387	169,904	84	(6,200)	200	15,756	873	4,902	50,254	238,160	1,309	239,469
Loss for the period	—	—	—	—	—	—	—	—	(11,861)	(11,861)	(85)	(11,946)
Other comprehensive income for the period												
Exchange differences arising on translation of financial statements from functional currency to presentation currency	—	—	—	—	—	—	—	272	—	272	—	272
Total comprehensive income (expense) for the period	—	—	—	—	—	—	—	272	(11,861)	(11,589)	(85)	(11,674)
At 30 June 2021 (unaudited)	2,387	169,904	84	(6,200)	200	15,756	873	5,174	38,393	226,571	1,224	227,795

- (a) Special reserve represents the investment cost of a subsidiary which has been carved out of the Group as part of the reorganisation and the proceeds from disposal of that subsidiary.
- (b) The merger reserve of the Group arose as a result of the reorganisation. As at 30 June 2022 and 2021, the balance of the merger reserve included the deemed distribution upon the acquisition of a subsidiary from the controlling shareholders as part of the reorganisation.
- (c) Capital reserve represents the capital contribution from the previous shareholders to a subsidiary of the Group.
- (d) In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.
- (e) Capital contribution reserve of the Group represented the capital contribution upon acquisition of the net assets of a subsidiary pursuant to a group reorganisation.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash flows from operating activities		
Net cash from operating activities	27,981	10,171
Investing activities		
Interest received	902	1,461
Proceeds from disposals of property, plant and equipment	47	257
Proceeds from disposals of financial assets at fair value through profit or loss (“FVTPL”)	—	43,789
Purchases of property, plant and equipment	(2,943)	(4,305)
Net cash (used in) from investing activities	(1,994)	41,202
Financing activities		
Bank borrowings repaid	(52,000)	(108,000)
Repayment of capital element of lease liabilities	(26,335)	(18,557)
Interest paid on lease liabilities and bank borrowings	(2,818)	(5,877)
New bank borrowings raised	—	108,000
Government grants	1,369	3,786
Net cash used in financing activities	(79,784)	(20,648)
Net (decrease) increase in cash and cash equivalents	(53,797)	30,725
Cash and cash equivalents at 1 January	103,343	103,970
Effect of foreign exchange rate changes	855	270
Cash and cash equivalents at 30 June	50,401	134,965

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PREPARATION

China Shun Ke Long Holdings Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 18 March 2013 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s registered office is located at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, the Cayman Islands and its principal place of business in the PRC is located at Floor 3, Huale Building, No. 60 Hebin North Road, Lecong Town, Shunde District, Foshan, Guangdong Province, the PRC.

The Company was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 May 2015. The ordinary shares of the Company (the “**Shares**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 10 September 2015.

The Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) are principally engaged in the operation and management of retail stores and wholesales of goods in the PRC and Macau.

CCOOP International Holdings Limited, which is a company incorporated in the Cayman Islands and an indirectly wholly-owned subsidiary of CCOOP Group Co., Ltd. (“**CCOOP Group**”), a company incorporated in the PRC, holds 204,558,317 ordinary shares in aggregate, representing 70.42% of the entire issued share capital of the Company. In the opinion of the directors of the Company, the holding company of the Company is CCOOP Group, the shares of which are listed on the Shenzhen Stock Exchange.

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the functional currency of the principal subsidiaries of the Group where the primary economic environment is in the PRC. Other than the subsidiaries established in the PRC and Macau which functional currencies are RMB and Macau Pataca respectively, the functional currency of the Company and other subsidiaries is Hong Kong dollars (“**HK\$**”). All values are rounded to the nearest thousand (“**RMB’000**”) unless otherwise stated.

The condensed consolidated financial statements of the Group for the six months ended 30 June 2022 have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“**IASB**”) and the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021 except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“**IFRSs**”), which include IFRSs, International Accounting Standards, amendments and interpretations issued by the IASB and the IFRS Interpretations Committee of the IASB.

Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018 – 2020 cycle

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

3. OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker (“**CODM**”), being the chief executive of the Company, that are used to make strategic decisions. The Group has two reportable segments. The segments are managed separately as each business offers different services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Retail outlet operation (sales of fresh food, non-staple food and household products); and
- Wholesale distribution (sales of fast consumable products and non-staple food)

The management assesses the performance of the operating segments based on the measure of segment results which represents the net of revenue, cost of inventories sold, other operating income, selling and distribution costs, administrative expenses and finance costs directly attributable to each operating segment without allocation of certain other operating income and central administrative cost. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Segment revenue and results

For the six months ended 30 June 2022 (unaudited):

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Revenue				
From external customers	265,676	47,388	—	313,064
From inter-segment	<u>19,940</u>	<u>8,570</u>	<u>(28,510)</u>	<u>—</u>
Reportable segment revenue	<u>285,616</u>	<u>55,958</u>	<u>(28,510)</u>	<u>313,064</u>
Reportable segment loss	<u>(11,180)</u>	<u>(1,309)</u>	<u>—</u>	<u>(12,489)</u>
Other corporate income				23
Other corporate expenses				<u>(1,810)</u>
Loss before tax				<u><u>(14,276)</u></u>

For the six months ended 30 June 2021 (unaudited):

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Revenue				
From external customers	335,552	73,169	—	408,721
From inter-segment	<u>27,571</u>	<u>8,760</u>	<u>(36,331)</u>	<u>—</u>
Reportable segment revenue	<u>363,123</u>	<u>81,929</u>	<u>(36,331)</u>	<u>408,721</u>
Reportable segment loss	<u>(9,322)</u>	<u>(998)</u>	<u>—</u>	<u>(10,320)</u>
Other corporate income				11
Other corporate expenses				<u>(1,637)</u>
Loss before tax				<u><u>(11,946)</u></u>

Inter-segment sales are charged at prevailing market rates.

Geographic information

The Group's revenue from external customers and its non-current assets are all divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	Six months ended 30 June		At 30 June	At 31 December
	2022	2021	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(audited)
The PRC (place of domicile)	310,971	398,934	139,619	156,602
Macau	2,093	9,787	106	—
Hong Kong	—	—	18	21
	313,064	408,721	139,743	156,623

Deposits paid are excluded from non-current assets under geographical information.

The PRC is the country of domicile of the Group. The country of domicile is determined by referring to the country which the Group regards as its home country, has the majority of operations and centre of management.

The geographical location of customers is based on the location at which the goods were sold and the services were rendered. The geographical location of the non-current assets is based on the physical location of the asset.

The Group's revenue from external customers is derived from the PRC and Macau. No single customer of the Group contributed 10% or more to the Group's revenue for the six months ended 30 June 2022 and 2021.

4. REVENUE AND OTHER OPERATING INCOME

(a) Revenue

Revenue represents revenue arising on sale of goods, net of discounts and sales related taxes, where applicable, rental income and the value of services rendered. An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers within the scope of IFRS 15		
— Sales of goods		
General retail sales under retail outlet operation	170,079	317,959
Bulk sales under retail outlet operation	82,346	6,801
General wholesales under wholesale distribution	47,388	73,169
— Services rendered		
Commission from concessionaire sales under retail outlet operation	5,179	768
	<u>304,992</u>	<u>398,697</u>
Revenue from other sources		
Rental income from subleasing certain retail areas under retail outlet operation		
— Lease payments that are fixed	8,072	10,024
	<u>313,064</u>	<u>408,721</u>

Disaggregation of revenue from contracts with customers by timing of recognition

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Timing of revenue recognition		
At a point of time	<u>304,992</u>	<u>398,697</u>

(b) Other operating income

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Gain on lease termination	175	265
Government grants	1,369	3,786
Interest income on bank deposits	432	672
Interest income from financial assets at FVTPL	—	289
Promotion income from suppliers	7,864	8,337
Net rental income from investment properties	1,339	1,293
Others	4,434	3,921
	15,613	18,563

5. LOSS FROM OPERATIONS

The Group's loss from operations was arrived at after charging:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	4,579	5,276
Depreciation of investment properties	163	163
Depreciation of right-of-use assets	19,533	19,903
Employee benefits expenses (including directors' remuneration):		
— Wages and salaries	30,065	29,688
— Pension scheme contributions	4,870	4,543
— Other benefits	635	775
	35,570	35,006
Loss on disposals of property, plant and equipment	273	—

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings	749	2,853
Lease liabilities	1,998	3,024
	<u>2,747</u>	<u>5,877</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current — the PRC		
Charge for the period	<u>—</u>	<u>—</u>

The Group is not subject to any income tax under the jurisdiction of the Cayman Islands and the British Virgin Islands for the six months ended 30 June 2022 and 2021.

No provision for Hong Kong Profits Tax has been provided as the Group has no estimated assessable profits arising in Hong Kong for the six months ended 30 June 2022 and 2021.

The Group's subsidiaries in the PRC are subject to Enterprise Income Tax at the rate of 25% based on the estimated assessable profits for the six months ended 30 June 2022 and 2021.

From 1 January 2021 to 31 December 2022, under relevant PRC Enterprise Income Tax Law, for PRC enterprises that qualifies for small enterprises, annual taxable income below RMB3 million and thin-profit enterprises with an annual taxable income of RMB1 million or less are applicable to the effective tax rate of 2.5%. Where their annual taxable income exceeds RMB1 million but does not exceed RMB3 million, the RMB1 million portion will be subject to an effective tax rate of 5%, whereas the excess portion will be subject to the effective tax rate of 10%. According to the most recent Announcement No. 13 2022 issued by the Ministry of Finance and the State Taxation Administration, from 1 January 2022 to 31 December 2024, small enterprises with low profit will be subject to the effective tax rate of 5% for the portion of annual taxable income exceeding RMB1 million but not exceeding RMB3 million. Certain of the Group's subsidiaries were qualified for the six months ended 30 June 2022 and 2021.

The Law of the PRC on Enterprise Income Tax allows enterprises to apply for the certificates of "High and New Technology Enterprise" ("HNTTE") which entitles the qualified companies to a preferential income tax rate of 15%. 廣東省順客隆商業連鎖有限公司, a PRC subsidiary of the Group, has been qualified as a HNTTE in 2019 and its income tax rate is 15% for the six months ended 30 June 2022 and 2021.

The Group's subsidiaries in Macau are subject to Complementary Tax at rate of 12% based on estimated assessable profits for the six months ended 30 June 2022 and 2021. During the six months ended 30 June 2022 and 2021, no Macau Complementary Income Tax has been provided as there were no assessable profits generated.

8. DIVIDEND

No dividend was paid or proposed for the six months ended 30 June 2022 (six months ended 30 June 2021: nil), nor has any dividend been proposed since the end of the reporting period (2021: nil).

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>(14,297)</u>	<u>(11,861)</u>
	Six months ended 30 June	
	2022	2021
	Shares	Shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>290,457,000</u>	<u>290,457,000</u>

The diluted loss per share are the same as basic loss per share as there are no potential dilutive ordinary shares outstanding during both periods or at the end of both reporting periods.

10. CAPITAL EXPENDITURES

	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>
Opening carrying amount as at 1 January 2022 (audited)	36,516	9,351
Additions	2,943	—
Disposals	(320)	—
Depreciation/amortisation (<i>Note 5</i>)	(4,579)	(163)
Exchange adjustment	7	—
	<hr/>	<hr/>
Carrying amounts as at 30 June 2022 (unaudited)	<u>34,567</u>	<u>9,188</u>
Opening carrying amount as at 1 January 2021 (audited)	39,946	9,678
Additions	4,305	—
Disposals	(157)	—
Depreciation/amortisation (<i>Note 5</i>)	(5,276)	(163)
Exchange adjustment	(8)	—
	<hr/>	<hr/>
Carrying amounts as at 30 June 2021 (unaudited)	<u>38,810</u>	<u>9,515</u>

Assets with carrying amounts of RMB320,000 were disposed of by the Group during the six months ended 30 June 2022, resulting in a net loss on disposal of RMB273,000 (30 June 2021: gain of RMB100,000).

As at 30 June 2022 and 31 December 2021, certain buildings with carrying amounts of RMB11,635,000 and RMB11,852,000 respectively have been pledged to the bank for banking facilities granted to the Group (Note 15).

As at 30 June 2022 and 31 December 2021, certain investment properties with carrying amounts of RMB9,188,000 and RMB9,351,000 respectively have been pledged to the bank for banking facilities granted to the Group (Note 15).

11. LEASES

(i) Right-of-use assets

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Other properties leased for own use	73,548	87,880
Ownership interests on leasehold land	22,440	22,876
	95,988	110,756

As at 30 June 2022, right-of-use assets of RMB22,440,000 (31 December 2021: RMB22,876,000) represents land use rights locating in the PRC.

As at 30 June 2022, certain ownership interests on leasehold land with carrying amounts of approximately RMB20,355,000 (31 December 2021: RMB20,729,000) have been pledged to the bank for banking facilities granted to the Group (Note 15).

The Group has lease arrangements for retail outlets, warehouses and office premises. The lease terms are generally ranged from thirteen months to nineteen years at fixed rentals. The Group has also entered into short-term leases arrangements in respect of retail outlets, warehouses and office premises. One of the properties leased contains variable lease payment terms that are linked to sales generated from the relevant leased retail outlet and with minimum lease payment terms. During the six months ended 30 June 2022 and 2021, no expenses related to variable lease payments of the lease were recognised into profit or loss.

Additions to the right-of-use assets for the six months ended 30 June 2022 amounted to RMB16,093,000 (six months ended 30 June 2021: RMB18,787,000), due to new leases of retail outlets, warehouse and office premises and renewal of existing leases.

During the six months ended 30 June 2022 and 2021, the Group has subleased part of the rented retail outlets. The Group has classified the sublease as operating leases. During the six months ended 30 June 2022 and 2021, the Group recognised rental income from subleasing right-of-use assets of RMB8,072,000 (six months ended 30 June 2021: RMB10,024,000).

(ii) Lease liabilities

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Current	24,264	38,169
Non-current	48,195	56,035
	72,459	94,204
	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Analysed into payable		
Within one year	24,264	38,169
After one year but within two years	20,965	21,452
After two years but within five years	24,791	31,971
After five years	2,439	2,612
	72,459	94,204
Less: amount due for settlement within 12 months (shown under current liabilities)	(24,264)	(38,169)
Amount due for settlement after 12 months	48,195	56,035

During the six months ended 30 June 2022, the Group entered into new leases of retail outlets and renewed existing leases of RMB16,093,000 (six months ended 30 June 2021: RMB18,787,000).

(iii) Amounts recognised in profit or loss

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Depreciation of right-of-use assets by class of underlying asset:		
Other properties leased for own use	19,097	39,430
Ownership interests in leasehold land	436	872
	19,533	40,302
Gain on lease termination	175	424
Interest expenses on lease liabilities	1,998	5,584
Expense relating to short-term leases	322	4,278

(iv) Others

During the six months ended 30 June 2022, the total cash outflow for leases amount to RMB28,655,000 (six months ended 30 June 2021: RMB25,214,000).

12. TRADE AND BILLS RECEIVABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables	26,497	25,554
Less: allowance for impairment of trade receivables	(1,312)	(1,295)
	25,185	24,259
Bills receivables	174	433
	25,359	24,692

All of the Group's sales are on cash basis except for the wholesale of goods, bulk sales of merchandise to corporate customers and rental income receivable from tenants. The average credit terms offered to these customers or tenants are generally for a period of 0-180 days from the invoice date. An aged analysis of the trade receivables, net of allowance for impairment of trade receivables, at the end of the respective reporting periods, based on the invoice date, is as follows:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Within 30 days	11,584	11,532
31 to 60 days	6,230	8,427
61 to 180 days	5,356	2,932
181 to 365 days	1,365	699
Over 1 year	650	669
	25,185	24,259

13. TRADE PAYABLES

The Group normally obtains credit terms of 0 to 360 days from its suppliers.

An aged analysis of the trade payables at the end of the respective reporting periods, based on the invoice date, is as follows:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Current to 30 days	22,146	28,683
31 to 60 days	13,551	23,654
61 to 180 days	26,329	12,148
181 to 365 days	7,617	8,557
Over 1 year	7,690	6,796
	<u>77,333</u>	<u>79,838</u>

14. AMOUNTS DUE FROM RELATED COMPANIES

As at 30 June 2022 and 31 December 2021, the amounts due from related companies are trade-related, unsecured, interest-free and repayable within 3 months based on invoice date. All of the amounts at the end of the respective reporting periods, based on the invoice date, are within 30 days. The carrying amounts approximate to their fair values.

15. BANK BORROWINGS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Secured bank borrowings	<u>8,000</u>	<u>60,000</u>
Carrying amount repayable:*		
Within one year	<u>8,000</u>	<u>60,000</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 30 June 2022 and 31 December 2021, the bank borrowings were denominated in RMB, bore interest at fixed rate of 4.90% (2021: 4.90%) per annum.

The Group's interest-bearing bank borrowings are secured by:

- (i) the pledge of certain buildings of the Group with carrying amounts of RMB11,635,000 and RMB11,852,000 as at 30 June 2022 and 31 December 2021 respectively (Note 10);
- (ii) the pledge of certain right-of-use assets of the Group with carrying amounts of RMB20,355,000 and RMB20,729,000 as at 30 June 2022 and 31 December 2021 respectively (Note 11);
- (iii) the pledge of certain investment properties of the Group with carrying amounts of RMB9,188,000 and RMB9,351,000 as at 30 June 2022 and 31 December 2021 respectively (Note 10).

16. SHARE CAPITAL

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Authorised: 2,000,000,000 ordinary shares of HK\$0.01 each	<u>15,826</u>	<u>15,826</u>
Issued and fully paid: 290,457,000 ordinary shares of HK\$0.01 each	<u>2,387</u>	<u>2,387</u>

17. OPERATING LEASE ARRANGEMENTS

The Group as a lessor

The Group sub-leases certain areas inside its retail outlets and leases out its investment properties. The leases are negotiated for terms ranging from 1 to 10 years. None of the leases includes contingent rentals.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Within one year	<u>15,066</u>	<u>17,649</u>

18. MAJOR NON-CASH TRANSACTIONS

During the six months ended 30 June 2022, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB16,093,000 and RMB16,093,000 respectively, in respect of lease arrangements for retail outlets (six months ended 30 June 2021: RMB18,787,000 and RMB18,787,000 respectively).

During the six months ended 30 June 2022, the Group had non-cash reductions to right-of-use assets and lease liabilities of RMB11,328,000 (six months ended 30 June 2021: RMB2,316,000) and RMB11,503,000 (six months ended 30 June 2021: RMB2,581,000) respectively, in respect of early termination of leases.

19. RELATED PARTY TRANSACTIONS

- (i) In addition to the transactions detailed elsewhere in these condensed consolidated financial statements, the Group had the following material transactions with related parties during the periods:

Related party relationship	Nature of transaction	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Related companies (<i>Note a</i>)	Sale of goods (<i>Note a</i>)	62	1,261
	Rental expense paid (<i>Note b</i>)	—	276

- (a) The consideration of sale transactions are based on (i) historical transaction prices and amount; (ii) prevailing market prices; and (iii) discount rate offered to bulk purchase customers. The credit period for sales to related parties is within 90 days.
- (b) During the year ended 31 December 2020, the Company entered into a one-year lease in respect of other office premises from a fellow subsidiary of the Group's holding company. The amount of rent payable by the Company under the lease was HK\$55,000 (equivalent to RMB47,779) per month. During the six months ended 30 June 2021, the Group has made lease payment of RMB276,000 (2022: nil) to the fellow subsidiary of the Group's holding company, where the lease is accounted for as a short-term lease.
- (ii) Compensation of key management personnel of the Group, including directors' remuneration, is as follows:

	Six months ended 30 June	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Salaries, allowances and benefits in kind	1,256	1,049
Pension scheme contributions	92	105
	1,348	1,154

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is an investment holding company, and the Group is a supermarket chain store operator with geographical focus in Guangdong province of the People’s Republic of China (the “**PRC**”). During the six months ended 30 June 2022 (the “**First Half**” or the “**Period**”), the Group maintained both retail and wholesale distribution channels. The Group’s focus on the suburban and rural areas of the PRC made it different from other major players in the market.

Retail Outlets

During the Period, the Group opened 1 retail outlet. As at 30 June 2022, the Group had a total of 69 retail outlets, namely 68 retail outlets in Guangdong province of the PRC and 1 retail outlets in the Macau Special Administrative Region of the PRC (“**Macau**”) respectively.

The following table sets forth the changes in the number of retail outlets of the Group during the Period:

	For the Period/year ended	
	30 June 2022	31 December 2021
At the beginning of the Period/year	68	71
Additions	1	1
Reductions	–	(4)
	<hr/>	<hr/>
At the end of the Period/year	69	68

The following table sets forth the breakdown of the number of retail outlets of the Group by geographical location as at 30 June 2022:

Location	Number of retail outlets as at	
	30 June 2022	31 December 2021
Foshan	52	51
Zhaoqing	7	7
Zhuhai	5	5
Guangzhou	3	3
Shenzhen	1	1
	<hr/>	<hr/>
Guangdong Province, the PRC	68	67
Macau	1	1
	<hr/>	<hr/>
Total	69	68

General Wholesale

During the Period, the Group managed to keep all exclusive distribution rights it gained before. The Group maintained exclusive distribution rights for 23 brands in Foshan and Zhaoqing. The exact coverage of the exclusive distribution rights varied among those 23 brands. Instead of developing the size of general wholesale customer base, the Group put more emphasis on gaining more sub-distributors rather than retailers as the Group's customers.

Franchise Operation

The Group has a franchise scheme opened for application by interested parties to franchise retail outlets. The proceeds from selling goods to franchisees of the Group form part of its wholesale distribution revenue.

The following table sets forth the changes in number of franchise outlets of the Group during the Period:

	For the Period/year ended	
	30 June 2022	31 December 2021
At the beginning of the Period/year	625	633
Reductions	(12)	(8)
	<hr/>	<hr/>
At the end of the Period/year	613	625

RECENT DEVELOPMENT AND OUTLOOK

During the post-COVID-19 era, the consumption habits and business models of the retail sector have changed significantly. Online channels have penetrated into all walks of life and become a standard configuration for retail companies. At the same time, the emergence of community group buying has impacted brick-and-mortar retailers. Under fierce competition, the traditional supermarket sector has to change its operating model to actively explore breakthroughs and adapt to market changes. The key is to undertake transformation and upgrade in direction of being more professional and specialized. The advantage of the traditional supermarket sector is that they have offline outlets close to customers. What they need to do is to highlight fresh food operation and in-person experience, so that the store is not only a place for selling goods, but also a “third space” in people’s lives. Meanwhile, the Group proactively expanded online platforms to integrate online and offline sales.

Due to the overall sluggish environment of the retail sector, the Group saw a decline in financial results in the First Half, with revenue of approximately RMB313,064,000, representing a decrease of approximately RMB95,657,000 or 23.4% as compared to the same period last year. The decrease in revenue was mainly attributed to the impact of new retail forms, such as online shopping, and the COVID-19 pandemic.

In face of such a severe situation, the Group prudentially responded and decisively took the following major measures to minimise the decline in results: (i) established the model outlets of “Shun Ke Long Fresh Hub” and its profitability model, and opened 12 stores, highlighting the growth point in results of fresh good; (ii) continuously upgraded and renovated stores of limited profitability in order to effectively increase sales; (iii) used direct procurement to effectively reduce procurement costs; (iv) adopted emerging sales methods such as live streaming to effectively promote online sales and cater to consumption habits while keeping abreast of market trends; (v) by strengthening cooperation with suppliers, accurately grasped the sales methods and market trends of some bulk commodities and daily necessities, which effectively boosted the gross profit margin; and (vi) introduced a number of incentives, trainings and performance goals to improve employees’ performance in an all-around way and their overall quality.

Despite the current complicated and rigorous operating environment of the retail sector, the Group will continue to focus on the supermarket chain business, expand the size of regional outlets, and explore the consumption potential in Foshan, Zhaoqing, and Zhuhai. Grasping the development opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area, it will develop into an influential leading retailer in the area. Through reform, transformation, innovation and improvement, the Group will adhere to the marketing strategy of “retail + wholesale + bulk trade + online and offline integration + community marketing”. Based on brick-and-mortar retail, the Group will prioritise “new retail” and develop an omni-channel sales approach covering online and offline, in order to actively expand innovative businesses and stabilise revenue. In addition to continuing to take the above measures, the Group will also perform the following tasks in the second half of 2022: (i) develop a new business model of “Shun Ke Long Club Warehouse Store” that provides members with high quality, cost-effective, and differentiated goods and exclusive benefits to increase consumers’ stickiness, brand loyalty and confidence; (ii) develop wholesale business regarding sauces and beverages and gradually increase regional dealer brands with better profits, striving to become the largest first-level agent in Shunde District; (iii) follow the local government’s boosting measures

and launch provincial or base poverty alleviation project to enhance the social impact of the Group in response to the central government’s rural revitalisation strategy; (iv) continuously upgrade and renovate stores, and adjust the category structure to further optimise the store environment and shopping experience; (v) continuously develop “Shun Ke Long Fresh Hub” to promote franchised stores during the year, making them an extension of business format of “Shun Ke Long Fresh Hub”; (vi) continue to expand online platforms, develop the Group’s own e-commerce platform “SKL Select” and open Tik Tok account and WeChat Video account for uninterrupted live streaming, so as to achieve a combination of online and offline sales; and (vii) pay great attention to hot and promotional windows and activities, such as several e-commerce shopping festivals and events of Middle Autumn Day, 21% off year-end promotions, and Members Day on Tuesdays.

FINANCIAL REVIEW

Revenue

For the Period, the revenue of the Group was approximately RMB313,064,000, representing a decrease of approximately RMB95,657,000 or 23.4% comparing with the same period in 2021. The decrease in revenue was mainly due to the impact of new retail forms, such as online shopping, and the COVID-19 pandemic.

For the Period, the Group’s revenue from retail outlets operation was approximately RMB265,676,000, representing a decrease of approximately RMB69,876,000 or 20.82% comparing with the same period in 2021. The decrease in this revenue was mainly due to online shopping and the COVID-19 pandemic. In addition, the Group saw a decline in the revenue from meat reserves and some group buying projects.

For the Period, the Group’s revenue from wholesale distribution operation was approximately RMB47,388,000, representing a drop of approximately RMB25,781,000 or 35.23% comparing with the same period in 2021. The decrease was mainly due to the reduction of distribution regions and distribution brands by wholesale companies, which were impacted by the weak local markets such as catering. Moreover, due to the COVID-19 situation abroad, the Group suspended the bulk wholesale business during the Period.

Gross Profit Margin

For the Period and the same period in 2021, the Group’s gross profit margins were approximately 15.9% and approximately 14.1% respectively. The figure for the Period rose by approximately 1.8% year on year.

Other Operating Income

For the Period, the Group’s other operating income was approximately RMB15,613,000, representing a decrease of approximately RMB2,950,000 or 15.89% comparing with the same period in 2021. The decrease was mainly due to the decline in government grants.

Selling and Distribution Costs

For the Period, the Group's selling and distribution costs were approximately RMB67,003,000, representing a decrease of approximately RMB1,170,000 or 1.72% comparing with the same period in 2021. The decrease was mainly due to the decline in rental fees, utilities and other expenses because of a year-on-year drop of 2 retail outlets.

Administrative Expenses

For the Period, the Group's administrative expenses were approximately RMB9,828,000, representing a decrease of approximately RMB3,458,000 or 26.03% comparing with the same period in 2021. The decrease was mainly due to the decline in rental fees, promotion fees and office fees.

Finance Costs

For the Period, the Group's finance costs were approximately RMB2,747,000, representing a decrease of approximately RMB3,130,000 or 53.26% comparing with the same period in 2021. The decrease was mainly due to the drop in interest expenses on short-term borrowings.

Income Tax Expense

During the Period, the Group's income tax expense was nil, flat with the same period in 2021. As operating companies did not make profits during the Period, there is no need to pay corporate income tax.

Net Loss

During the Period, the Group's net loss attributable to the owners was approximately RMB14,297,000, representing an increase of approximately RMB2,436,000 or 20.54% comparing with the same period in 2021. The increase in loss was mainly due to the decrease in gross profit as a result of a decline in sales.

Total Comprehensive Expense

For the Period, the Group's total comprehensive expense attributable to the owners was approximately RMB13,487,000, representing an increase of approximately RMB1,898,000 or 16.38% comparing with the same period in 2021. The increase was mainly due to the decrease in gross profit as a result of a decline in sales.

Capital Expenditures

The Group's capital expenditure requirements mainly relate to additions of its property, plant and equipment for the opening of new retail outlets and renovation of existing retail outlets. The Group spent approximately RMB2,943,000 on property, plant and equipment during the Period.

Use of Proceeds

The shares of the Company (the “**Shares**”) were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 10 September 2015 through an offering of Shares (the “**Global Offering**”). For the details of the Global Offering, please refer to the prospectus issued by the Company (the “**Prospectus**”) on 28 August 2015. The net proceeds from the Global Offering, after deducting underwriting fees and related expenses, amounted to approximately HK\$188,600,000 (equivalent to approximately RMB155,000,000), was intended to be applied in the manner as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

Nonetheless, the Board constantly evaluates the prospect of the retail market and the PRC’s economic conditions to determine the most efficient and effective method to deploy the Group’s resources. As reference is made to the announcement issued by the Company dated 24 October 2016, the Board considered that if the net proceeds were still allocated as the original manner as stipulated in the Prospectus, it would not be cost effective and at the best interests of the Company and its shareholders. In view of the recent slowdown in economic growth in the PRC, the Group has been slowing down the pace of opening new retail outlets and thus freeing up proceeds originally intended to be used for such purpose. With a view to better using the net proceeds from the Global Offering, the Company has decided to re-allocate parts of the unutilised proceeds to upgrade the existing retail outlets to enhance the Group’s competitiveness as one of the major market players in Guangdong province and repay the bank borrowings to reduce the Group’s finance costs in the manner as stated below.

	Original allocation of net proceeds		Revised allocation of net proceeds		Utilisation as at 30 June 2022		Remaining balance of net proceeds as at 30 June 2022	
	<i>equivalent</i>		<i>equivalent</i>		<i>equivalent</i>		<i>equivalent</i>	
	<i>RMB</i> <i>million</i>	<i>% of net</i> <i>proceeds</i>	<i>RMB</i> <i>million</i>	<i>% of net</i> <i>proceeds</i>	<i>RMB</i> <i>million</i>	<i>% of net</i> <i>proceeds</i>	<i>RMB</i> <i>million</i>	<i>% of net</i> <i>proceeds</i>
Opening of new retail outlets	116.9	75.4%	74.4	48.0%	74.4	48.0%	0	0%
Upgrading existing retail outlets	–	0.0%	14.6	9.4%	14.6	9.4%	0	0%
Repayment of bank borrowings	–	0.0%	27.9	18.0%	27.9	18.0%	0	0%
Information systems upgrades	11.2	7.2%	11.2	7.2%	11.2	7.2%	0	0%
Upgrading and expanding the existing two distribution centres	13.3	8.6%	13.3	8.6%	0	0%	13.3	8.6%
General working capital	13.6	8.8%	13.6	8.8%	13.6	8.8%	0	0%
Total	155.0	100.0%	155.0	100.0%	141.7	91.4%	13.3	8.6%

Liquidity and Financial Resources

As at 30 June 2022, the Group had cash and cash equivalents of approximately RMB50,401,000 (31 December 2021: approximately RMB103,343,000), out of which approximately RMB43,091,000 was denominated in RMB and approximately RMB7,310,000 was denominated in HK\$ or MOP.

As at 30 June 2022, the Group had net current assets of approximately RMB88,304,000 (31 December 2021: approximately RMB85,950,000) and net assets of approximately RMB187,382,000 (31 December 2021: approximately RMB200,848,000). As at 30 June 2022, the Group had unutilised banking facilities of approximately RMB100,000,000 (31 December 2021: RMB48,000,000).

As at 30 June 2022, trade receivables and deposits paid, prepayments and other receivables were RMB104,227,000 (31 December 2021: approximately RMB113,194,000). The decrease of RMB8,967,000 or 7.92% in trade receivables and deposits paid, prepayments and other receivables were mainly due to (i) a decline in prepayments as a result of a decrease in brands and businesses distributed by wholesale companies; and (ii) recovery of the margin for some completed cooperation projects and the security deposit for tender projects.

In order to minimise credit risk, the management of the Group has assigned responsible staff to determinate credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The management considered that risk of default in respect of trade and other receivables is low and thus the identified impairment loss was immaterial.

On 21 October 2019, the Board announced that the Company, through its subsidiary, Guangdong Province Shun Ke Long Commerce Limited* 廣東省順客隆商業連鎖有限公司 (“**Guangdong SKL**”) began to subscribe for up to RMB60 million of wealth management product from Shunde Rural Commercial Bank with expected annualised return rate of 2.80% to 3.00%. As at 30 June 2022, Guangdong SKL did not hold any of the wealth management product.

Significant Investments

The Group did not hold any significant investments during the Period.

Material Acquisitions and Disposals

The Group did not carry out any material acquisition nor disposal of any subsidiary or associated company during the Period.

* *For identification only*

Indebtedness and Pledge of Assets

As at 30 June 2022, the Group had bank borrowings approximately RMB8,000,000 (31 December 2021: approximately RMB60,000,000) secured by:

- (i) the pledge of certain buildings of the Group with carrying amounts of approximately RMB11,635,000 (31 December 2021: approximately RMB11,852,000);
- (ii) the pledge of certain right-of-use assets of the Group with carrying amounts of approximately RMB20,355,000 (31 December 2021: approximately RMB20,729,000); and
- (iii) the pledge of certain investment properties of the Group with carrying amounts of approximately RMB9,188,000 (31 December 2021: approximately RMB9,351,000).

All those bank borrowings were repayable within a year. The interests of those loans were at fixed rate of 4.9% per annum (31 December 2021: at fixed rate of 4.9% per annum).

Gearing Ratio

As at 30 June 2022, the Group's gearing ratio (the gearing ratio is equivalent to total debt divided by total equity) was approximately 4.27% (31 December 2021: 29.9%).

Foreign Currency Exposure

Majorities of the Group's assets, liabilities and cash flows were denominated in RMB and the management of the Company viewed that the change in exchange rate for RMB against foreign currencies did not have significant impact on the Group's financial position nor performance. During the Period, the Group did not engage in any hedging activities and the Group had no intention to carry out any hedging activities in the near future. The management of the Group will continue to closely monitor the foreign currency market and consider carrying out hedging activities when necessary.

Contingent Liabilities

As at 30 June 2022, the Group did not provide any guarantee for any third party and did not have any significant contingent liabilities.

Employees

The Group had a total of 1,132 employees as at 30 June 2022, of which 1,128 employees worked in the Mainland of the PRC and 4 employees worked in Hong Kong and Macau. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and bonuses based upon staff performance and profit of the Group. During the Period, the Group had not caused any significant impact on its operation due to labour disputes nor had it experienced any difficulty in the recruitment of experienced staff. The Group maintains a good relationship with its employees.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Period.

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code for the Period. All Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the Period.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float under the Listing Rules up to the date of this announcement.

CHANGE IN INFORMATION OF DIRECTORS

The change in biographical details of the Directors subsequent to the publication of the Company's 2021 annual report is set out below:

Mr. Han Wei has become an International Certified Public Accountant (ICPA) since March 2022.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules. The Board is of the view that throughout the Period, the Company has complied with all the code provisions as set out in the CG Code except for the following deviation:

Under the code provision D.2.5, the Group should have an internal audit function. However, due to the size of the Group and for cost effectiveness consideration, the Group currently does not have an internal audit function. Instead, the Group engages an external independent consultant to perform a review on the internal control and the risk management systems annually. The Board considers that it is more cost and result-effective to engage an external independent consultant instead of establishing an internal audit team. The results of the review are reported to the audit committee of the Company (the "**Audit Committee**"), and measures and procedures are seriously considered by the Audit Committee after taking into account of the findings and recommendations of the external independent consultant. The Group continues to review the need for an internal audit function annually.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant events requiring disclosure that has taken place subsequent to 30 June 2022 and up to the date of this announcement.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and the code provision D.3 of the CG Code. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management systems of our Group; to oversee the audit process and the relationship with external auditor; to review arrangements enabling employees of the Group to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company; and to perform other duties and responsibilities as assigned by our Board. The Group's condensed consolidated financial statements for the six months ended 30 June 2022 were unaudited, but have been reviewed by the Audit Committee.

As at the date of this announcement, Mr. Cheng Hok Kai Frederick, Mr. Wang Yilin and Mr. Zou Pingxue are members of the Audit Committee. All of them are independent non-executive Directors. Mr. Cheng Hok Kai Frederick is the chairman of the Audit Committee.

By order of the Board
China Shun Ke Long Holdings Limited
Shang Duoxu
Chairman and Executive Director

Hong Kong, 15 August 2022

As at the date of this announcement, the executive Directors are Mr. Shang Duoxu and Mr. Han Wei; the non-executive Director is Ms. Wang Hui; and the independent non-executive Directors are Mr. Cheng Hok Kai Frederick, Mr. Wang Yilin and Mr. Zou Pingxue.