Yik Wo International Holdings Limited

易和國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8659

2020

ANNUAL REPORT

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*This report, for which the directors (the "**Directors**") of Yik Wo International Holdings Limited (the "**Company**"* together with its subsidiaries, the "***Group***"*) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent non-executive Directors

Mr. Li Danny Fui Lung
Mr. Liu Dajin
Mr. Deng Zhihuang

COMPLIANCE OFFICER

Mr. Xu Youjiang

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

Mr. Xu Youjiang
Mr. Yeung Tsz Kit Alban *(FCG, FCS & FCPA Australia)*

COMPANY SECRETARY

Mr. Yeung Tsz Kit Alban *(FCG, FCS & FCPA Australia)*

AUDIT COMMITTEE

Mr. Li Danny Fui Lung *(Chairman)*
Mr. Liu Dajin
Mr. Deng Zhihuang

REMUNERATION COMMITTEE

Mr. Deng Zhihuang *(Chairman)*
Mr. Li Danny Fui Lung
Mr. Liu Dajin
Mr. Zhang Yuansheng

NOMINATION COMMITTEE

Mr. Liu Dajin *(Chairman)*
Mr. Deng Zhihuang
Mr. Li Danny Fui Lung
Mr. Xu Youjiang

RISK MANAGEMENT COMMITTEE

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

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WEBSITE OF THE COMPANY

www.yikwo.cn

GEM STOCK CODE

8659

CHAIRMAN’S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the “**Board**”) of Yik Wo International Holdings Limited, I am pleased to present the annual results of the Company and its subsidiaries for the year ended 31 December 2020.

FINANCIAL PERFORMANCE

For the year ended 31 December 2020, the Group recorded a revenue of approximately RMB233.2 million, representing a year-on-year increase of approximately 9.6% (2019: approximately RMB212.8 million). Profit for the year attributable to owners of the Company was approximately RMB20.8 million (2019: approximately RMB20.5 million). The increase in revenue was mainly due to the increase in demands for take-away food by the general public since the outbreak of the Novel Coronavirus (“**COVID-19**”).

BUSINESS REVIEW

Saved as above, despite the COVID-19 outbreak, the Group’s revenue for the year ended 31 December 2020 was approximately RMB233.2 million, representing an increase of approximately 9.6% as compared to the corresponding year ended 31 December 2019. Moreover, the Group recorded a profit attributable to the owners of the Company of approximately RMB20.8 million whilst the profit attributable to owners of the Company last year was approximately RMB20.5 million. As a result, the Director is of the view that it has a direct impact for the growth of its core business in a wave of COVID-19.

PROSPECTS

Since the beginning of 2020, the outbreak of the COVID-19 has severely and adversely impacted the world’s economic activities. At the start of the year, the COVID-19 outbreak was clearly evident in the People’s Republic of China (the “**PRC**”) and a few Asian markets, such as Japan and Korea. Subsequently, this caused the respective governments to announce different levels of lockdown across the region. Inevitably, lockdowns have hampered the supply chain and local dining restaurants in the food and beverage industry with market players forced to shut down local dining restaurants temporarily. The global industry is facing challenges from all directions because of the COVID-19 outbreak. The COVID-19 outbreak has led to increased levels of inventories at restaurants, as a consequence of the temporary closures of local dining restaurants. The demand for takeaway related business is increasing at an exponential rate during the lock down of all cities in PRC. With effective measures and control over the COVID-19 by the PRC government, the PRC removed the lock down orders from the PRC authorities earlier. After over a year of having takeaway service, the people get used to having a takeaway orders to maintain social distancing and other structural changes in social activities such as work-from-home arrangements, limited in-person contact and more exercise to maintain a healthier lifestyle. The shift in consumer behaviour is likely to accelerate the convergence between takeaway business and use of takeaway box, which is favourable for the development of disposable food storage container business.

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

APPRECIATION

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

Xu Youjiang
Chairman
Hong Kong, 31 March 2021

FINANCIAL HIGHLIGHTS

CONSOLIDATED RESULTS

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

ASSETS AND LIABILITIES

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

FINANCIAL SUMMARY

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

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

Note:

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

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

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

Note:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue for the year ended 31 December 2020 was approximately RMB233.2 million, representing an increase of approximately 9.6% as compared to the corresponding year ended 31 December 2019. The Group recorded a profit attributable to the owners of the Company of approximately RMB20.8 million whilst the profit attributable to owners of the Company last year was approximately RMB20.5 million.

Given the uncertainties brought about by the impart of the outbreak of COVID-19 on the global and the PRC economy, the Group aims to constantly engage in proactive thinking and focus on implementing comprehensive and versatile strategies based on its core corporate values and vision for the long-term. Given our beliefs, the Group strives to improve the quality of our research and development process in manufacturing in order to manufacture items precisely and thus, design and develop products that are more complex or add in subtle designs to distinguish us from our competitors.

In view of the challenging market conditions as mentioned above, while the Group will continue to focus on its core business of the sales of disposable food storage container, it will continue to explore new business opportunities with an aim of broadening its source of income and maximising profit and return for the Group and shareholders of the Company in the long run. The Group will endeavour to increase its market share and attract new customers to enlarge its client base through conducting more marketing activities and developing sales and marketing teams.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2020, the Group's total revenue amounted to approximately RMB233.2 million (2019: approximately RMB212.8 million). The Group recognised an increase of total revenue by approximately RMB20.5 million or approximately 9.6% from 2019 to 2020, which was mainly due to the increase in demands for take-away food by the general public since the outbreak of COVID-19.

Cost of sales

Throughout the year ended 31 December 2020, some factory fixed costs and indirect costs, such as salaries and utilisation expenses, have been increased at the same time which is in line an increase in sales. Therefore, the production cost attributable to each product manufactured by the Group increased.

Gross profit

The overall gross profit margin of the Group increased from approximately 28.4% for the year ended 31 December 2019 to approximately 29.7% for the year ended 31 December 2002 due to increase of purchase orders for our disposable food storage containers with an outbreak of COVID-19.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2020 amounted to approximately RMB11.5 million (approximately RMB11.0 million for the year ended 31 December 2019), representing an increase of 4.8%. Such increase was mainly due to the increase of sales staff costs and transportation amounting to RMB1.8 million (2019: RMB1.6 million) and RMB8.5 million (2019: RMB7.7 million) for the year ended 31 December 2020 respectively.

Administrative and other operating expenses

Administrative and other operating expenses for the year ended 31 December 2020 amounted to RMB25 million (approximately RMB20.0 million for the year ended 31 December 2019), representing an increase of approximately 24.8%. Such increase was due to the increase in listing expenses of approximately RMB10 million (2019: RMB4.8 million), depreciation of approximately RMB7.2 million (2019: RMB6.3 million) and staff costs of approximately RMB14.3 million (2019: RMB12.9 million).

Income tax expense

The Group is subject to income tax on an enterprise basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operates. No provision for profits tax has been provided by the Company as the Company had no assessable profits subject to taxation in any jurisdiction. No provision for Hong Kong profits tax has been provided as the Group had no assessable profits arising from Hong Kong during the financial years ended 31 December 2020 and 2019, respectively.

The effective income tax rates of the Group were approximately 36.2% and 28.9% for the years ended 31 December 2020 and 2019, respectively.

Profit for the year

As a result of the foregoing, the Group's profit for the year remained stable at approximately RMB20.8 million for both years ended 31 December 2019 and 2020. It was mainly attributable to the net effect of increase in gross profit, selling expenses and income tax expenses and administrative and other operating expenses.

FOREIGN CURRENCY EXPOSURE RISKS

The Group operated mainly in the PRC with most of the Group's transactions settled in Renminbi. As such, the Group did not have significant exposure to foreign exchange risk during the year. The Group did not use any financial instruments for hedging purpose during the year ended 31 December 2020.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Interest rate risk

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

Credit risk

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

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

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

Liquidity risk

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net current assets increased from approximately RMB48.0 million as at 31 December 2019 to approximately RMB83.4 million as at 31 December 2020 primarily due to (i) the increase in cash and cash equivalents of approximately RMB46.2 million and (ii) the increase in inventories of approximately RMB0.9 million, and was partially offset by (i) the decrease in trade and other receivable(s) of approximately RMB4.5 million, (ii) the increase in trade and other payables of approximately RMB0.6 million, (iii) the decrease in amount due from shareholder of approximately RMB6.0 million and (iv) the increase in lease liabilities of approximately RMB0.06 million.

The current ratio improved dramatically from approximately 2.7 times as at 31 December 2019 to approximately 3.8 times as at 31 December 2020.

The gearing ratio is calculated based on debts divided by total equity as at the respective dates and multiplied by 100%. The gearing ratio improved dramatically from approximately 38.6% as at 31 December 2019 to 23.9% as at 31 December 2020, respectively.

Cash position

At 31 December 2020, the bank balances and cash of the Group were approximately of RMB72.4 million (at 31 December 2019: approximately of RMB26.2 million). The increase was mainly due to the net proceeds from share offer.

Borrowings

As at 31 December 2020, the Group did not have any bank borrowings. (as at 31 December 2019: Nil).

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 July 2020. There has been no change in the capital structure of the Group since the listing of the shares of the Company on GEM of the Stock Exchange (the "**Listing**"). The share capital of the Group only comprises of ordinary shares.

As at 31 December 2020, the Company's issued share capital was HK$6,000,000 and the number of its issued ordinary shares was 600,000,000 of HK$0.01 each.

There has been no material change in the share capital structure of the Company during the year ended 31 December 2020.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year ended 31 December 2020, the Group did not have any significant investments, material acquisitions nor disposals of subsidiaries and affiliated companies.

CHARGES ON GROUP ASSETS

As at 31 December 2020, the Group did not have any charges on its assets (31 December 2019: Nil).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any material contingent liabilities (31 December 2019: nil).

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

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

Set out below is the actual utilisation of the net proceeds as at 31 December 2020:

Use of Net Proceeds	Planned use of total Net Proceeds (RMB million)	Approximate percentage of total Net Proceeds %	Actual use of Net Proceeds as at 31 December 2020 (RMB million)	Unused total Net Proceeds as at 31 December 2020 (RMB million)	Expected time line for utilisation of unused net proceeds as at 31 December 2020
To expand production capacity and enhance production efficiency (Note 1)	18.1	79.3%	17.0	1.1	Before end of year 2021
To set up a second production facility (Note 2)	1.9	8.2%	1.1	0.8	Before end of year 2021
To strengthen research and development capabilities (Note 3)	2.5	11.0%	2.43	0.07	Before end of year 2021
To expand Group's sales and marketing team	0.3	1.5%	0.04	0.26	Before end of year 2021
Total	22.8	100%	20.57	2.23	

Notes:

1. The Group utilised the net proceeds for the acquisition of new machines for expanding production capacity of approximately RMB17.0 million.
2. The Group commenced the rental arrangement of new plant and warehouse of approximately RMB0.8 million and the respective renovation of approximately RMB0.3 million.
3. The Group commenced to hire research and development team as of approximately RMB0.03 million and acquire mould tools for research and development use of approximately RMB2.4 million.
4. The Group commenced to expand its sales and marketing team of approximately RMB0.04 million.

The estimated net proceeds raised from the Share Offer was approximately RMB32.8 million as set out in the Prospectus. Set out below are the details of the intended use of proceeds since listing up to 31 December 2020 as per the Prospectus:

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

The actual net proceeds raised from the Company's initial public offering ("**Share Offer**") was approximately RMB22.8 million, which was lower than the estimated net proceeds as set out in the Prospectus. The Group's actual use of proceeds since listing up to 31 December 2020 was approximately RMB20.57 million. The Group conducted its business in accordance with the business plan and business objectives and even faster than it planned as stated in the Prospectus, which indicated that the Group can expand more rapidly than it planned. Set out below are the details of the actual use of proceeds since listing up to 31 December 2020:

- Approximately RMB17.0 million for expanding production capacity and enhance production efficiency;
- Approximately RMB1.1 million for setting up a second production facility;
- Approximately RMB2.43 million for strengthening research and development capabilities; and
- Approximately RMB0.04 million for expanding the Group's sales and marketing team.

The Group will use the remaining unutilised net proceeds of approximately RMB2.23 million in accordance with its plan as set out in the Prospectus. The Group will from time to time review its business plans in the best interests of the Shareholders.

BIOGRAPHIES OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xu Youjiang (許有獎), aged 54, is the chairman of our Company and our executive Director.

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

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

Ms. Xu Liping (許麗萍), aged 49, is our executive Director. Ms. Xu joined our Group on 2 January 2019 as the vice chairman of Hengsheng Animation.

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

Mr. Zhang Yuansheng, aged 34, is our executive Director. Mr. Zhang joined our Group on 6 May 2014 as a manager of the finance department of Hengsheng Animation.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Danny Fui Lung (李魁隆), aged 68, was appointed as our independent non-executive Director on 19 June 2020. He is also the chairman of our Audit Committee and a member of our Remuneration Committee and Nomination Committee.

In July 2013, Mr. Li was appointed as a member of the internal audit committee of the Scout Association of Hong Kong. Mr. Li graduated from the University of Hong Kong with a bachelor's degree in science in November 1975. He obtained a certificate in accountancy from the University of Stirling, Scotland in June 1977, and was admitted as a member of the Institute of Chartered Accountants of Scotland, the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) and the Institute of Chartered Accountants in Australia in October 1980, March 1982 and September 1984, respectively. Mr. Li is the sole proprietor of Danny Li & Company, a certified public accountants firm in Hong Kong, and has been practising as a certified public accountant in Hong Kong for more than 20 years. He has over 40 years of experience in the accounting profession and after qualifying as Chartered Accountant in 1980 with Ernst & Whinney in Scotland, has worked as finance manager, financial controller and internal auditor in major multinational companies. Mr. Li was an independent non-executive director of Emperor Culture Group Limited (formerly known as See Corporation Limited) (HKEx: 491) from October 2001 to November 2016. He was also an independent non-executive director of Centraland Limited (formerly listed on the Singapore Stock Exchange then delisted on 11 November 2011) from February 2008 to November 2011.

Mr. Liu Dajin (劉大進), aged 55, was appointed as our independent non-executive Director on 19 June 2020.

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

Deng Zhihuang (鄧志煌), aged 51, was appointed as our independent non-executive Director on 19 June 2020.

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

SENIOR MANAGEMENT

Mr Yeung Tsz Kit Alban ("Mr Yeung"), aged 42, is the chief financial officer and the company secretary of the Group. Mr Yeung joined the Group in March 2019.

Mr Yeung is a Fellow of the The Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries and a fellow member of CPA Australia and an associate of the Chartered Institute of Management Accountants. Mr Yeung has more than 15 years of experience in company secretarial function, accounting, auditing, accounting and corporate finance. Prior to joining the Group, he worked in a managerial grade position in the assurance department of an international accounting firm and financial controller of listed company in overseas and chief financial controller of private company in Hong Kong. He was awarded a bachelor's degree in Commerce at the University of New South Wales, Australia and a master degree of corporate governance at the Open University of Hong Kong. Mr Yeung oversees the overall financial, budget control, internal control, company secretarial matters and corporate finance affairs of the Group. Mr. Yeung has been the company secretary of Jia Group Holdings Limited (HKEx: 8519) since December 2020.

Ms. Shi Yaya (施雅雅), aged 31, has been the procurement manager of our Group since December 2013 and is primarily responsible for overseeing the administration and coordination of the procurement process.

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

COMPANY SECRETARY

Mr. Yeung Tsz Kit Alban, aged 43, was appointed as the Group's company secretary and the chief financial officer on 11 March 2019. Mr. Yeung is responsible for the company secretarial function, the review and supervision of the Group's overall internal control systems and accountancy function. He has over 15 years of experience in company secretarial function, accounting, auditing and tax.

Mr. Yeung is currently a fellow member of The Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries, a fellow member of CPA Australia and an associate of the Chartered Institute of Management Accountants. Mr. Yeung obtained a master's degree in corporate governance from the Open University of Hong Kong in 2018. Mr. Yeung also holds his bachelor's degree in commerce at the University of New South Wales, Australia.

INTRODUCTION

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

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

The Company has complied with the code provisions of the Code throughout the year ended 31 December 2020 (the "**Financial Year**").

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Model Code**") as its own code governing securities transactions of the Directors. The Company has confirmed, having made specific enquiry of the Directors, that Directors have complied with the standard set out in Model Code throughout the year ended 31 December 2020.

THE BOARD OF DIRECTORS

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

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

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

(a) to develop and review the Group's policies and practices on corporate governance and make recommendations;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and

(e) to review the Group's compliance with the CG Code and disclosure in the corporate governance report.

BOARD COMPOSITION

Up to the date of this report, the Board comprises of six Directors, three of whom are executive Directors and the other three are independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors

Mr. Xu Youjiang (appointed as Director on 13 December 2018 and re-designated as chairman and executive Director on 9 May 2019.

Ms. Xu Liping (appointed as Director on 18 March 2019 and re-designated as our chief executive officer and executive Director on 9 May 2019 and appointed as chief executive officer on 9 May 2019).

Mr. Zhang Yuansheng (appointed as Director on 18 March 2019 and re-designated as an executive Director on 9 May 2019).

Independent non-executive Directors

Mr. Li Danny Fui Lung (appointed on 19 June 2020)

Mr. Liu Dajin (appointed on 19 June 2020)

Mr. Deng Zhihuang (appointed on 19 June 2020)

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

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

The details of Directors are set out in the section headed "Biographies of Board of Directors and Senior Management" on pages 12 to 14 of this report. There are no family or other material relationships among members of the Board.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Danny Fui Lung, Mr. Liu Dajin and Mr. Deng Zhihuang were appointed as the independent non-executive Directors on 13 July 2020.

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

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

INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

According to the information provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2020 is as follows:

Name of Directors	Continuous professional development programmes
Executive Directors	
Mr. Xu Youjiang (Chairman)	Yes
Ms. Xu Liping	Yes
Mr. Zhang Yuansheng	Yes
Independent non-executive Directors	
Mr. Li Danny Fui Lung	Yes
Mr. Liu Dajin	Yes
Mr. Deng Zhihuang	Yes

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

PRACTICE AND CONDUCT OF BOARD MEETINGS

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

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

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

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

ATTENDANCE RECORDS OF DIRECTORS

Details of Directors' attendance at the AGM, Board and board committee meetings in the year 2020 are set out in the following table:

	Number of meetings attended/held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Directors					
Mr. Xu Youjiang	2/2	–	–	–	–
Ms. Xu Liping	2/2	–	–	–	–
Mr. Zhang Yuansheng	2/2	–	–	–	–
Independent Non-executive Directors					
Mr. Li Danny Fui Lung	2/2	2/2	–	–	–
Mr. Liu Dajin	2/2	2/2	–	–	–
Mr. Deng Zhihuang	2/2	2/2	–	–	–

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

The Audit Committee consists of three independent non-executive Directors: Mr. Deng Zhihuang and Mr. Liu Dajin and is chaired by Mr. Li Danny Fui Lung.

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

The Audit Committee is satisfied with their review of the auditor's remuneration, the independence of the auditor, Grant Thornton Hong Kong Limited ("**GT**"), and recommended the Board to re-appoint GT as the Company's auditor for the year ending 31 December 2021, which is subject to the approval of shareholders at the forthcoming AGM.

The Company's annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee, before the annual results were submitted to the Board for approval.

REMUNERATION COMMITTEE

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

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

The Remuneration Committee consists of one executive Director and two independent non-executive Directors: Mr. Zhang Yuansheng, Mr. Li Danny Fui Lung and Mr. Liu Dajin and is chaired by Mr. Deng Zhihuang.

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

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

Senior Management's remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2020 falls within the following bands:

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

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

REMUNERATION POLICY

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

NOMINATION COMMITTEE

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

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

The Nomination Committee consists of one executive Director and three independent non-executive Directors: Mr. Xu Youjiang, Mr. Deng Zhihuang and Mr. Li Danny Fui Lung and is chaired by Mr. Liu Dajin.

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

Nomination policy

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

Nomination Criteria

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

(i) the candidate's character and integrity;

(ii) the candidate's qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the Board Diversity Policy (as defined below) that are relevant to the Company's business and corporate strategy;

(iii) any measurable objectives adopted for achieving diversity on the Board;

(iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules;

(v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;

(vi) willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and

(vii) such other perspectives that are appropriate to the Company's business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Procedures

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

Appointment of New and Replacement Directors

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

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

Appointment and Re-election of Directors

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

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

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

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

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

Nomination of Directors by Shareholder

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

RISK MANAGEMENT COMMITTEE

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

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

The Risk Management Committee consist of three executive Director and one independent non-executive directors; Mr. Xu Youjiang, Ms. Xu Liping, Mr. Zhang Yuansheng and Mr. Liu Dajin and is chaired by Mr. Xu Youjiang.

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

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

ACCOUNTABILITY AND AUDIT

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

All Directors understand and acknowledge their responsibility for ensuring that the Group's audited consolidated financial statements for each financial year are prepared to provide a true and fair view of the state of affairs, the financial results and cash flows of the Group in accordance with the listing rules and the requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") and the applicable accounting standards. In preparing the audited consolidated financial statements for the year ended 31 December 2020, the Board has adopted appropriate and consistent accounting policies and made prudent, fair and reasonable judgments and estimates. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy the state of affairs, operating results, cash flows and equity movement of the Group at any time. The Directors confirm that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

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

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

The reporting responsibilities of the Company's auditor, are set out in the Independent Auditor's Report with full text included from pages 60 to 65 of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2020, the remuneration for the audit services provided by the Company's auditor to the Group was as follows:

Type of services	Amount RMB'000
Annual audit service for the year ended 31 December 2020 – Grant Thornton Hong Kong Limited	623
Total	623

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

BOARD DIVERSITY POLICY

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

(a) Significant Changes in the Constitutional Documents

For the year ended 31 December 2020, there has been no significant change in the constitutional documents of the Company. The Articles are available on the websites of the Stock Exchange and the Company.

(b) General Meetings with Shareholders

The Company's AGM will be held on 31 May 2021.

SHAREHOLDERS' RIGHTS

(a) Convening an extraordinary general meeting

Pursuant to Articles, extraordinary general meetings shall be convened on the written requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such meeting shall be held within three months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) or any of them representing more than one-half of the total voting rights of all of them may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. Shareholders also have the right to propose a person for election as a Director, the procedures are available on the websites of the Company and the Stock Exchange.

(b) Enquiries to the Board

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

(c) Putting forward proposals at a general meeting

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

INVESTOR RELATIONS

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

DIVIDEND POLICY

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

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

COMPANY SECRETARY

Mr. Yeung Tsz Kit Alban had been appointed as the company secretary. Mr. Yeung is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed. All Directors have access to the advice and services of the company secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, the company secretary is responsible for facilitating communications among Directors as well as with management.

During the year ended 31 December 2020, the company secretary has undertaken more than 15 hours of relevant professional training in compliance with Rule 5.15 of the GEM Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

LOOKING FORWARD

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

DEFINITION AND INTERPRETATION

Throughout this report, the following terms, except where the context otherwise requires, have the following meanings:

- **Group** : Yik Wo International Holdings Limited and its subsidiaries
- **ESG** : Environmental, social and governance
- **Appendix 20** or **ESG Reporting Guide** : the Appendix 20 – Environmental, Social and Governance Reporting Guide of the Listing Rules
- **GEM** : GEM of the Stock Exchange of Hong Kong Limited
- **Hong Kong** : The Hong Kong Special Administrative Region of the People's Republic of China, including Hong Kong Island, Kowloon and the New Territories
- **PRC** : The People's Republic of China
- **KPIs** : Key Performance Indicators
- **Listing Rules** : The Rules Governing the Listing of Equity Securities on the GEM of the Stock Exchange of Hong Kong Limited
- **Stock Exchange** : The Stock Exchange of Hong Kong Limited

OVERVIEW

(I) Purpose

Yik Wo International Holdings Limited (the "**Company**"), together with its subsidiaries (referred to as the "**Group**"), successfully listed on the GEM of the Stock Exchange of Hong Kong Limited ("**HKEx**") on 13 July 2020. In accordance with the requirements of HKEx, listed companies are required to provide an Environmental, Social and Governance Report ("**ESG Report**"). This is the first ESG Report since the listing which mainly introduces the Group's vision, policies and measures by establishing the key performance indicators ("**KPIs**"), and reports its performance regarding environmental and social issues for internal assessment and management control, and communicating to the internal and external stakeholders.

(II) Scope of Report

The Group is primarily engaged in the manufacturing and sales of disposable plastic food storage containers including food storage containers and drinkwares. The products are sold as non-branded and under its own brand "JAZZIT" to customers in the PRC with a small part to customers in overseas countries. This ESG report covers the operations and activities of our Fujian factories and showroom.

(III) Basis of Preparation

This is our first ESG Report since our listing on the GEM of the HKEx and is in accordance with the ESG Reporting Guide (the "**ESG Reporting Guide**") outlined in Appendix 20 of the GEM Listing Rules and Guidance Governing the Listing of Securities on HKEx. The content of this report includes two main subject areas, as outlined and required by the ESG Reporting Guide, namely Area A – Environmental and Area B – Social and further includes the disclosure of climate-change related issues, which have or may impact our Group.

This ESG Report, which has been reviewed and approved by the board of the Company (the "**Board**"), both reviews and reports the core business operations and activities of the Group and follows the principles of materiality, quantification, balance and consistency to disclose relevant statistics and information.

(IV) Reporting Period

This report is for the period from 1 January 2020 to 31 December 2020 (the "**2020 Reporting Period**").

(V) Corporate Goals and Visions

The Group's vision is to be a leading manufacturer on a sustainable basis of disposable plastic food storage containers and drinkwares in both the PRC and worldwide. We are committed to providing these products with a reasonable return on investments to our shareholders, whilst being a socially and environmentally responsible company and providing a safe, healthy and pleasant working environment to our employees.

(VI) ESG Management

Our ESG strategies, management policy and approach are based on compliance with relevant legal and regulatory requirements, the principle of sustainability and opinions from our key stakeholders. The Group's visions and goals, and the ESG management policy and approach can be summarized in the following statements.

1. The Group is committed to be successful in undertaking its business, whilst providing strong returns to our investors and supporters, a healthy and safe working environment to our employees and helping to provide sustainable developments for the local communities and the Group.

2. The Board from time to time approves and updates strategies and policies which are incorporated with the related environmental and social issues stated in the ESG Reporting Guide. The Board has assigned each department to implement ESG policies in accordance with the respective operations and activities. Through their normal and routine channels, all departments report directly to the Group's Chief Executive Officer ("**CEO**"), who has the overall responsibility to ensure that the Board's approved strategies and policies are implemented. The departments are responsible for exploring and developing KPIs, where appropriate and necessary, in accordance with the Group's policies and goals.

3. It is the duty of the Group's CEO, Chief Operating Officer ("**COO**") and the management team (the "**Management Team**") to examine and address all the environmental and social issues detailed in the aspects and areas in the ESG Reporting Guide.

Overall, the Group takes an active role in ensuring sustainable and environmentally friendly production and operations by employing various measures, which are compliant with relevant laws, operating practices and standards. The Group continues to uphold our established environmental protection and management system. The adoption and application of the Quality Management Systems (ISO 9001:2015), which the Group has been certified with since 2020, and Environmental Management System (ISO 14001:2015), which the Group has been certified with since 2020, has proven to be effective in ESG management.

STAKEHOLDERS COMMUNICATION AND MATERIALITY

In managing the priorities, the Group continues to ensure its operations are in compliance with its environmental and social responsibilities and obligations. The Group also continues to take into account of the opinions and views, and strive to address their concerns with the various stakeholders through the stated communication channels as listed below:

Stakeholders	Communication Channels
Shareholders/Investors	• General meetings • Information published on websites of the Company and the HKEx • Direct emails or phone enquiries • Dispatched documents
Employees	• Direct meetings with the management executives • Emails • Annual and regular appraisal • Organized functions and activities for the employees
Customers	• Day-to-day communication through front line staff • Emails • Official websites
Suppliers/service providers/ professional advisors	• Day-to-day communication through front line staff • Regular review of the signed arrangements by the management
NGO partners	• Volunteer activities • Sponsors and donations
Industry associations	• Participation in annual and regular meetings and events

After collecting the views and opinions, the CEO and/or COO will carry out materiality assessments internally with the related managers and externally with related stakeholders through various means of communication, such as liaison groups, panel discussions, workshops, on-site visits, company websites, emails and direct enquiry phones, etc. For 2020, the Group and the stakeholders have identified the following material areas and aspects:

Subject Areas	Subject Aspects	Materiality
Environmental	A1. Emissions	✓
	A2. Use of Resources	✓
	A3. Environment and Natural Resources	✓
	A4. Climate Change	✓
Social	B1. Employment	✓
	B2. Health and Safety	✓
	B3. Development and Training	✓
	B4. Labour Standards	✓
Operating Practices	B5. Supply Chain Management	✓
	B6. Product Responsibility	✓
	B7. Anti-corruption	✓
Community	B8. Community Investment	✓

Through the Group's established management structure, process, policies and guidelines as aforementioned and described, the above ESG material areas and aspects have been strictly managed and monitored and herein are summarized below:

A. ENVIRONMENTAL AREAS AND ASPECTS

1.1 Environmental Areas Overview

As the Group understands it obligations, we have implemented a company-wide "Environmental Protection and Sustainability Policy and Procedures" which aims to achieve a balance between undertaking business, maximize returns to our shareholders, ensuring our operations and activities minimise any adverse impacts on the environment, and being energy, water and resource usage efficient.

Our "Environmental Protection and Sustainability Policy and Procedures" is summarized below:

Purpose

To establish and maintain policies and procedures to identify, evaluate and determine the significance of environmental aspects and impacts by and on the company and ensuring compliance with all relevant national and local environmental laws and regulations including but not limited to:

- Environmental Protection Law of the PRC (中華人民共和國環境保護法);
- Law of the PRC on Environmental Impact Assessment (中華人民共和國環境影響評價法);

- Water Pollution and Control Law of the PRC (中華人民共和國水污染防治法);
- Atmospheric Pollution and Control Law of the PRC (中華人民共和國大氣污染防治法);
- Law of the PRC on the 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 PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法); and
- Cleaner Production Promotion Law of the PRC (中華人民共和國清潔生產促進法).

Procedure

(i) The Management Team shall identify and evaluate the environmental aspects for all work activities that are most likely to give rise to significant environmental impacts.

(ii) The Management Team shall brainstorm internally and externally with other related parties and classify all the relevant work activities under normal, unusual and emergency situation as follows:

- Normal is defined as a routine activity or work that is carried out daily and is part of a process;
- Unusual refers to non-routine work that occurs under unexpected circumstances; and
- Emergency refers to an occurrence of an event that will cause a drastic impact or severity to the environment and immediate action has to be taken. For example: major leakage and spillage, fire, etc.

(iii) When identifying the environmental aspects, all activities likely to cause environmental impact or improve general sustainability are considered including but not limited to the following:

- Gas emissions;
- Water discharge;
- Waste disposal;
- Land contamination;
- Sustainability and the efficient use of raw materials, energy, water and other natural resources;
- Other local environmental issues; and
- National and local laws and regulations.

(iv) At least once every year, the Management Team shall review the environmental aspects. They shall also update regularly based on new laws and regulations, organizational work activities and processes or production systems or equipment, and also based on updated knowledge obtained through incidents/accidents, organizational or other requirements.

(v) For each environmental aspect, the Management Team shall identify and assess the environmental impacts, and the following shall be considered:

- Global warming;
- Water pollution;
- Air pollution;
- Waste generation;
- Land/soil contamination;
- Noise pollution; and
- Depletion of natural resources.

1.2 Environmental Aspects

The Group advocates the importance of sustainable development in relation to our on-ongoing business operations and activities. We have employed various measures to ensure full compliance with all relevant rules and regulations regarding emissions, effluent water and solid waste discharge and to ensure minimal impact to the environment. All of our employees are made aware of their respective roles and responsibilities in conserving energy and natural resources and we regularly assess new production equipment and processes and maintain compliance with Quality Management Systems Certification (ISO 9000:2015) and Environmental Management System Certification (ISO 14001:2015), to reduce pollution and improve sustainability. Furthermore, the Group abided to the updated environmental policies and regulations which are the Classified Management Directory for Environmental Impact Assessment of Construction Projects of the PRC (建設項目環境影響評價分類管理名錄) and the National Directory of Hazardous Wastes of the PRC (國家危險廢物名錄), which were updated during the 2020 Reporting Period.

During the 2020 Reporting Period, the Group was not subject to any confirmed cases for breaching environmental legislation in relation to emissions and waste discharge or other environmental issues that could have an adverse impact on the local environment.

A1: Emissions and Wastes

Indirect Emissions - Greenhouse Gas (“GHG”)

Indirect emissions consist of carbon dioxide, methane and nitrous oxide (“**CO_2e**”). However, since the Group is only using electricity for our production, carbon dioxide remains as the primary source of greenhouse gas emissions.

For the 2020 Reporting Period, electricity consumption by our manufacturing facilities (and accompanying offices) amounted to 7,523,289 kWh. Based on this, the Group’s operations and activities generated a total of 5,292.63 tonnes or approximately 35.28 tonnes per worker per annum of CO_2e from the use of electricity.

As this is the Group's first ESG Reporting, the forthcoming reporting will use the stated information as its baseline. Nevertheless, to reduce indirect GHG emissions, we have formulated a Climate Change Strategy that will continue to improve our energy saving practices including strictly controlling the electricity consumption of our production facility and to invest in new production equipment and processes. We target to lower the CO_2e emission per employee per year within 5% through the reduction of electricity consumption per employee.

Direct emissions

Since we have sub-contracted all of our logistical needs to external transport operators and have utilized electric driven production equipment, the uses of fossil fuels and its resultant direct hazardous gas emissions is immaterial. However, according to the Group's understanding, emissions from transportation have decreased due to transportation restriction and quarantine measures due to the widespread pandemic of the Coronavirus Disease ("**COVID-19**"). It has been forecasted by the Group that transportation will normalize in the near future.

Water Pollution and Discharge

Wastewater is generated during the production process, in which the discharged wastewater is treated at centralized treatment facilities and, under the Regulations of Administration of Levy and Use of Pollutant Discharge Fee, are not obliged to pay pollutant discharge fees. Furthermore, the Group has engaged with Third-Party inspection in 2019 to assess the level of compliance in respect of the environmental protection covering the emission of wastewater and other environmental pollutions, in which the Group obtained China Inspection Body and Laboratory Mandatory Approval issued by the Fujian Provincial Bureau of Quality and Technical Supervision.

During the 2020 Reporting Period, the Group did not have any violation related to wastewater pollution and discharge and is determined to take all necessary measures to achieve the same results for the coming years.

Noise Pollution Emission

The Group does not generate any noise pollution to the surrounding neighbors as our business operations and activities are conducted inside our factory and offices, with a tailor-made building structure. Within our factory operation, in certain parts of the operation, noise is generated, but the extent is far below national and industry standard limits. To be cautious and to protect our workers, it is compulsory that protective equipment is worn at all times during production activities.

Light Emission

Our business operations and activities do not generate any light pollution.

Hazardous and Non-Hazardous Wastes

The Group has developed a natural and pollution-free philosophy in its business where possible and has adopted the 3-R principle – to reduce, reuse and recycle. All employees are constantly reminded to adopt the 3-R principle in their handling and use of resources. Consideration is given to recycle and reuse in the various processes and stages of production, mainly from the beginning in which environmentally friendly raw materials are utilized. For example, polypropylene containers are favoured to be manufactured as it is considered a more environmentally friendly material due to its ease to decompose and recycle.

Non-hazardous wastes are generated from both production operations and non-production operations. Non-hazardous wastes generated from the production processes are mainly packaging materials –namely affixed labels, plastic film and kraft paper. An insignificant amount of non-hazardous materials is also generated from non-production areas, such as supporting offices, dormitories and canteens. All such wastes are collected and disposed of by external waste collectors.

Nevertheless, the amount of hazardous wastes generated from our manufacturing operations is insignificant and poses no material impact to the environment.

Mitigation Measures and Reduction Initiatives

As analyzed above, the Group does not generate much hazardous and non-hazardous emissions and discharges. However, as a responsible corporation, we are conscious of the effects our operations and activities may have on the environment and constantly work on maximizing energy efficiency and minimizing emissions, wastes generation, disposal and discharges. We fully comply with all applicable environmental laws, rules and regulations, and industrial standards in the markets we operate in. We comply with Quality Management Systems Certification (ISO 9000:2015) and Environmental Management System Certification (ISO 14001:2015), to reduce pollution and improve sustainability.

To combat global warming and to reduce the generation of CO_2e emissions and hazardous pollutants, we target to reduce our electricity consumption, and have introduced measures to achieve it. For example, we have instructed our staff and workers to turn off electricity when our factory and office equipment are not in use, to use natural ventilation to replace air-conditioning in allowable conditions, and not to set all air-conditioners' temperature setting to lower than 25° C under normal conditions. The Group has also invested in energy saving tools and equipment such as energy-saving copiers and computers installed LED lights, encouraged employees to use teleconferencing to reduce their travels and to use public transport whenever possible.

During the 2020 Reporting Period, the Group did not have any violation related to hazardous or non-hazardous air emissions and wastes disposal, polluted water discharges. We are determined to take all necessary measures to achieve the same results for the coming years.

A2: Use of Resources

As an industrial operation, we consume electricity, water, printing paper and ink, packaging materials, and plastic. We promote the company-wide goal to saving resources and have implemented various measures to improve our resource saving performance, to minimize the impact to the environment and achieve operational optimization while complying with the relevant national and local laws and regulations. We have approved and implemented clear environmental policies and measures with the target to have an efficient use of resources for production facilities and processes, office administration, and the general use of our employees without causing pollution whilst saving resources. Our consumption of electricity, fossil fuels, water, printing papers and, plastic for 2020 were recorded as follows:

(i) Electricity & Fuel Consumption

Electricity is the only source of energy for our industrial production and our offices and dormitories operations and activities and is supplied by the local electricity grid. In 2020, our factory, offices and dormitories together consumed 7,523,289 kWh or 35.28 kWh per worker per year.

The Group targets to lower its electricity consumption by 2% the coming reporting year.

The Group recognises that investing in energy efficiency initiatives helps us to minimise our environmental impacts while also reducing costs. Our production facilities and accompanying dormitories are powered by a consistent and sufficient supply of electricity, which is supplied by the local electricity grid. To save energy, which also saves costs, we have installed energy saving LED lights and control meters and invested in the latest energy efficient production equipment and processes. The Group has promulgated rules and encouraged staff and workers to use resources efficiently and environmentally friendly including:

- Lights and equipment must be turned off if not in use;
- Maintaining work environments at pre-determined and energy efficient temperatures; and
- Encouraging the use of natural ventilation instead of air-conditioning whenever the conditions allow.

(ii) Fresh Water Consumption and Sourcing

For water, the main consumption comes from the production process in cooling plastic. Water is also used in the employee' dormitory for their personal use. Our factory, offices and dormitories all use fresh water supplied from the cities' central water supply network and we do not have any problem on sourcing of our water needs.

At all times we request the staff and workers to use fresh water smartly and be responsible, as it is one of the most precious natural resources. We monitor water usage patterns constantly via the use of smart meters and our own inspection teams who have been assigned to ensure there is no unwarranted uses and waste.

For 2020 Reporting Period, the Group consumed a total of 36,818 m^3 or 245.45 m^3 per worker per year of fresh water for industrial production, and offices and dormitories daily usage purposes.

For the coming year, we will continue to mobilize our staff and workers to save fresh water consumption, nevertheless continue to expand our operations, and target a 2% decrease in water consumption.

(iii) Paper and Packaging Materials and Other Raw Materials Consumption

We consider our use of packaging materials, namely affixed labels, plastic film and kraft paper, to be a material item and have established a KPIs to measure and monitor this.

During the 2020 Reporting Period, we used a total of 2,094,527 piece of paper. The papers are used for packaging as well as by the factories to record information. We will continue to monitor our usage and look at ways to introduce more sustainable and environmentally friending materials where possible.

For the upcoming reporting period, to save paper consumption, we have implemented or in the process of implementing the following measures in our offices:

- Avoid unnecessary printing and print on both sides;
- Use recycled papers and reuse paper-made products such as envelopes and folders;
- Replace the use of papers by sharing and storing information and documents in electronic formats; and
- Adopt a company-wide cloud based working environment including ERP system to reduce the need for printed documentation.

As explained before, during our production process, we use a lot of plastic raw materials, in which 15,317.55 tonnes of plastic raw materials was used during production. As aforementioned, we favour the use of polypropylene as it is easy to recycle and biodegradable.

A3: Environment and Natural Resources

The Group's business operations and activities do not create significant environmental impact and hazards. As a responsible corporation, we have implemented our environmental protection policy and have complied with all national and local environmental laws, rules and regulations, and industry standards. We are committed to conserving resources in order to reduce its impact on the environment as well as saving operational costs. We cooperate with the local government agencies and support environmental organizations' activities to build a "green" society. The Group has also implemented green purchasing practices and best practice technologies to conserve natural resources where applicable.

During the 2020 Reporting Period, fresh water, electricity and paper-based packaging materials for normal production operation were the key elements which were considered to have an impact on the environment. We have continued to support all measures to reduce, reuse, recycle, and replace as far as possible and practicable as laid down in our Environmental Policy and Measures. The Group did not receive any warning or complaint notice from any governmental environmental agencies, clients or business partners for the violation of any environmental rules and regulations, the act of polluting the environment or causing any environmental troubles. For the coming year, we will continue to achieve zero complaints and no pollution occurrences, and to explore new avenues and means to accomplish our goals of conserving natural resources and protecting the environment.

A4: Climate Change

The Group understands that stakeholders expect us to be managing and mitigating climate change risks in line with local and global commitments and recommendations. We recognise that the impacts of climate change are varied and long-ranging and the risks identified could prevent us from meeting our strategic objectives and could result in adverse operational, compliance and financial impacts. Thus, climate change risks are considered by our Board to be material risks and oversight is given to the Audit Committee who is developing an overarching Climate Change Strategy to reduce greenhouse gas emissions with policies and procedures to manage such potential risks including:

- Potential disruption to our operations due to extreme weather events and changing weather patterns;
- Changing customer behaviours and requirements as demand moves to other new machinery and equipment such as wind turbines;
- Changes in cost and availability of raw materials (polypropylene) and utilities such as renewable electricity, water and gas and relevant costs of securing and maintaining sufficient supply;
- Changes to government policy, law and regulation (including pricing carbon, renewable electricity pricing etc), which could result in increased operational costs and potential for litigation; and
- Failure to meet expectations of stakeholders.

Climate change is mainly caused by the release of CO_2 into the atmosphere, which is directly and indirectly the result of the use of fossil fuels for electricity generation and fuels for transportation. As the world transitions to a lower-carbon sustainable economy, there are inevitable areas that our Group can contribute to this. After discussions with our stakeholders, we have identified energy, water and logistics as immediate areas that we can tackle to both combat climate change and reduce potential costs in the future.

Energy

During the 2020 Reporting Period, the Group generated indirect greenhouse gas mainly CO_2, through the uses of electricity. As explained previously, we have implemented policies and procedures to reduce the use of fossil fuels as well as electricity across our organization and we will continue to invest in new more energy efficient manufacturing equipment and processes in the near future. We are currently investigating the cost-benefit of partial self-generation of renewable energy via solar panel installation, etc.

Water

Water is used both in our production process and by our employees in their dormitories. The Group has taken measures to encourage employees to more efficiently use water in order to reduce its consumption.

Logistics

In line with our Climate Change Strategy, the carbon footprint and sustainability of suppliers is an important consideration and we are actively seeking logistics partners that utilize electric vehicles or close equivalents to minimize their own carbon footprint where possible.

For the 2020 Reporting Period, the Group's business operations and activities, except for the above three aspects, did not lead to any events or issues that might impact the climate or result in the change of the climate significantly. The Group also has already taken measures to lower indirect CO_2 emissions and fresh water consumption for the coming year.

B. SOCIAL ASPECTS

1.1 Social Areas Overview

The Group acts in an honest and transparent principle and aims to support the building of a harmonious society and a mutually beneficial relationship with our stakeholders including employees, customers, suppliers, professional services providers, local communities as well as the governing authorities. During the formulation and implementation of our ESG strategies, policies, rules and regulations, we incorporate our long and short-term goals with consideration for our stakeholders and society. We believe that our modest acts will ultimately benefit the stakeholders and general society.

1.2 Employment and Labour Practices Aspects

B1: Employment

The Group strives to create a workplace which makes each employee feel valued and inspire to do their best and at all times regard our employees as valuable assets for our sustained development and growth. It is our policy to strictly comply with all the relevant statutory requirements in the Labour Law of the PRC (中華人民共和國勞動法) and other applicable laws and regulations in the PRC, and the Hong Kong Employment Ordinance.

The Human Resources Department is responsible for the employment and the relevant policies, which are clearly laid out in our Employee Handbook, including but not limited to, appointment, termination, working hours, rest days, statutory holidays, remunerations, various compensations, dismissals, health, general safety and other benefits and welfares.

The Group is committed to providing employees with equal opportunity on recruitment, promotion, compensation and benefits as specified in the relevant statutory provisions. To ensure a fair and rational human resources structure, the Group has established job qualifications and requirements specific to each job position in the local offices. They are taken as criteria for recruitment, promotion and transfer. The recruitment and decision-making processes involve both the relevant operational levels and the Human Resources Department. All employees enter into proper and standard employment contracts between the Group as required by law. Employment of child labor and forced labor is expressly and strictly forbidden.

In accordance with the requirements of the national laws of the PRC such as Social Insurance Law of the PRC (中華人民共和國社會保險法), the Administrative Regulations on Housing Provident Funds (住房公積金管理條例) and local Employment and Labour Law of Hong Kong, the Group provides and maintains statutory benefits to all qualified staff, including but not limited to mandatory provident fund, social security insurance, medical insurance, work injury insurance and compensation and statutory holidays.

Employees' remunerations are determined with reference to the prevailing market level in line with their competency, qualifications, experience and job position. Discretionary bonuses of such amounts and at such intervals for internal employees will be rewarded at the discretion of the top management with consideration on performance.

Employment of the Group:

For the year ended 31 December 2020, the Group had the following employment breakdown:

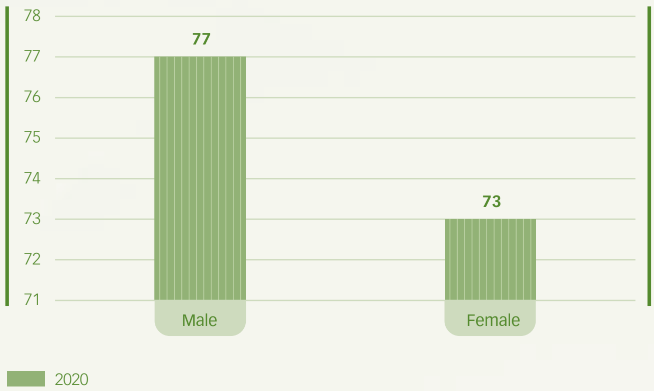

Figure 1: Number of Employee by Sex

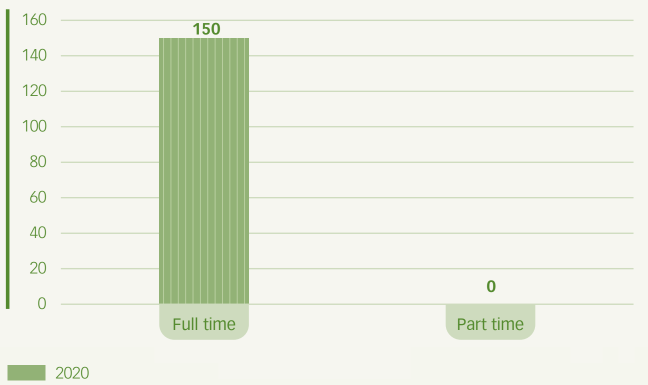

Figure 2: Number of Employee by Employment Type

Figure 3: Number of Employee by Employment Role

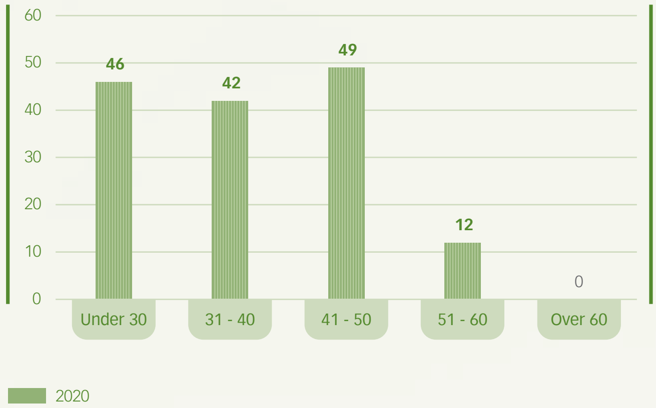

Figure 4: Number of Employee by Age

During the 2020 Reporting Period, the Group did not have any incidents of non-compliance with 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. We are confident that the Group will achieve the same result for the coming year.

Employment Turnover of the Group:

For the 2020 Reporting Period, a total of 2 employees voluntarily left for personal reasons and further career development. A breakdown of the employment turnover rates of the Group are broken down as follows:

Figure 5: Employment Turnover Rate by Sex

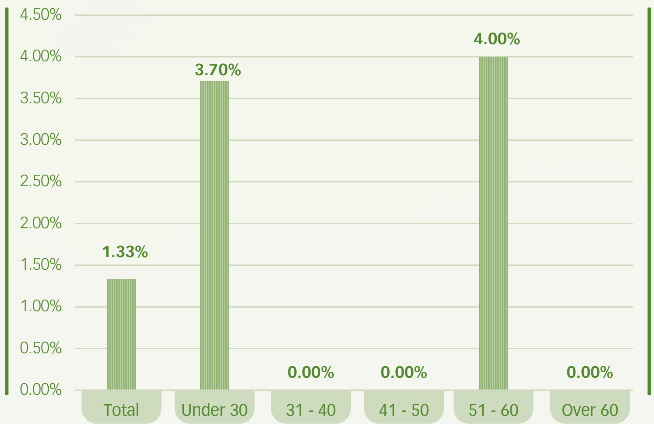

Figure 6: Employment Turnover Rate by Age

B2: Health and Safety

Given the nature of the Group's business in plastic food container and drinkware products related manufacturing, and being a responsible employer, the Group considers the health and safety of employees as our primary concern. We are focused on personal accountability, proactive hazard and incident management, risk mitigation and creating a positive health and wellbeing culture.

The Work Safety Law of the PRC (中華人民共和國安全生產法) is the overriding law regulating health and safety of employees in our operations. Additionally, Food Safety Law of the PRC (中華人民共和國食品安全法) is also of importance in the production of food-related products. However, leadership and culture are critical to embedding the importance of health and safety throughout our Group. Department managers and all employees are required to complete training to understand the practicalities of health and safety laws and regulations, and how they apply to our business particularly manufacturing practices. Specific safety rules, instructions and procedures for the safe operation of plants and employee safety are detailed in our Employee Handbook. The Safety Officer is responsible for the work safety and has composed a Safety Manual, which contains the relevant regulations and standards and developed processes applicable to our manufacturing operations.

All employees are required to strictly observe the health and safety policies, instructions and guidance and to follow the same at work and to place safety as their priority over production. Managers and supervisors are charged with the responsibility of ensuring that safety policies, rules and practices are observed. The Group has also taken out the required insurance for all employees in accordance with the statutory requirements of their employment locations.

The Group has equipped its production facilities with all the required safety equipment and facilities. We regularly purchase and ensure that all employees, at all times, have available and wear their labour safety equipment, such as safety helmets, gloves, and goggles.

In-house rules require all injuries or accidents to be promptly reported and properly dealt with in accordance with the national or local laws. In parallel, remedial or compensatory actions arising from safety and health issues or work injuries are required to be taken immediately where necessary as stipulated by the in-house rules. The Group did not have any record on any claim disputes on compensation or work-related injury investigation by the government officials in the 2020 Reporting Period.

During the 2020 Reporting Period, there were no cases of injury. Furthermore, there were no other accidents or incidents of non-compliance with relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards which could have significant impact on the production operations or businesses of the Group.

Our low injury rate shows that our safety and health policies and measures including training are effectively implemented and adhered to. The Group targets to achieve a zero injury and causality result for the coming year.

B3: Development and Training

As a professional organisation, we provide our employees with numerous career development and job-specific training opportunities covering a range of areas, including but not limited to professional development, trade skills, quality improvement, customer service, leadership and safety. Employees are encouraged to engage in self-development by taking external training programs and seminars, however, during the 2020 Reporting Period, none of the employees engaged in external training programs due to COVID-19.

Below is the breakdown of the percentage of employees trained during the 2020 Reporting Period by sex and employment role:

Training (No. of employees)	Internal	External
Total employee trained	100.00%	—
Male	51.33%	—
Female	48.67%	—
Managerial	6.00%	—
Operational	4.00%	—
General	90.00%	—

Below is the breakdown of the hours of training undergone by the Group's employees during the 2020 Reporting Period by sex and employment role:

Training (Hours)	Internal	External
Average hours trained	31.85	—
Male	2,452.19	—
Female	2,324.81	—
Managerial	286.62	—
Operational	191.08	—
General	4,299.30	—

B4: Labor Standards

The Group adopts the statutory requirements and standards applicable to our business operations to be our minimum labor standard on labor protection and welfare. The Group is committed to ensuring its full compliance and all management and supervisory levels are made aware of this.

Banning the employment of child labor, illegal workers and forced labor is achieved through the recruitment and employment process at source by the Human Resources Department. All job applicants are required to submit their credentials such as academic qualifications, professional skill certificates, references and identity card for verification and record purpose during recruitment. Such information is kept as the employee's personal file for record and future reference and government inspection.

The Head of the Human Resources Department and the heads of relevant department are charged with the duty of overseeing its compliance and are also responsible for ensuring that all labor protection and welfare obligations are complied with and any breaches of statutory compliance are brought to the attention of the senior levels.

During the 2020 Reporting Period, no case of any child labor or forced labor employment was reported or detected.

B5: Supply Chain Management

The Procurement Department is responsible for the procurement of raw materials. It also manages the procurement price, cost and supplier based on the company's development plan and sales targets, and to keep enough inventories to meet customer requirements.

The principal raw materials that we use for the manufacturing of manufacturing of disposable plastic food containers and drinkwares. Our suppliers of raw materials are located in the PRC. We do not enter into any long-term supply agreements with our suppliers. We procure our raw materials by individual sales orders on a case by case basis and the selling price and quantity of the raw materials required is negotiated on a case by case basis as and when we require the materials to meet a new sales order.

Before the purchase of raw materials, certifications or test results are to be provided by the suppliers as to meet the required safety standards. Once available and purchased, the Group's quality control staff will conduct sample check on the incoming raw materials. Under circumstances that the raw materials are sub-standard or defective, request for a refund will be asked of with the supplier.

During the 2020 Reporting Period, owing to the special nature of our raw materials, we only sourced raw materials from 13 local suppliers and no raw materials were sourced from overseas.

B6: Product Responsibilities

Product Quality

We are focused on high quality assurance as we believe that the quality and consistency of our products are critical to our ability to retain our customers and to expand market share. We not only comply with the Food Safety Law of the PRC and maintain Quality Management Systems Certification (ISO 9001:2015) and Environmental Management System Certification (ISO 14001:2015), which the Group have been certified since 2020, but also comply with some of the highest international standards as required by our customers including the SGS certifications and Regulation (EU) No. 10/2011. To maintain our competitive edge and continuously improve quality and sustainability, we are also committed to investing in increasing our production capabilities with new high-end plants and equipment and automation technologies. For example, new machines are equipped with thermostats which ensure the temperature is consistent and help to reduce cracking of slewing rings and product failure rate. By working closely with our customers, we are able to keep abreast of the latest product development and knowledge.

The major parts of our quality assurance procedures and processes are:

- Our quality assurance team inspects the incoming materials to ensure they are in line with our purchase order, such as the quantity, specifications, serial number, material, dimension and the physical condition. We will also check the test report provided by our supplier.
- On a sampling basis, we will take measurement of, and conduct visual inspection on our food container to see if there are any defects on their surface.
- On a sampling basis, we arrange for independent services providers to check the chemical composition of our incoming raw materials. This is to make sure that the chemical composition conforms to our specifications set forth in our purchase order.
- Upon completion of the manufacturing process, our quality assurance department will conduct final quality assurance test on the products.
- We conduct quality testing on all finished products to ensure that they comply with our customers' specifications

During the 2020 Reporting Period, due to the very specific nature of our products and the requirements for near perfect quality assurance, the Group recorded 0% return on goods sold. In the coming year, we will continue to stringently control and improve our product quality even further with a target of zero complaints.

Handling of Complaints

Policies and procedures are in place to ensure that all customer complaints or concerns are addressed to at the appropriate levels in a timely manner. In our sales contracts, there are clear clauses specifying our responsibilities under quality issues. The Sales Department is responsible for handling all sales complaint issues. Standing arrangements are also in place for an independent third party to adjudicate on any unresolved disputes between the Sales Department and the client. Consequential remedial actions will be taken promptly and in a responsible manner.

During the 2020 Reporting Period, we only received no complaints on the quality of our services and products.

Intellectual Property Right

The Group, up to the end of the 2020 Reporting Period, had built up a portfolio of intellectual property rights including 6 trademarks registers in the PRC, 41 patents registered in the PRC and 1 registered domain name.

We primarily rely on trademark and intellectual property laws, and confidentiality agreements with our senior employees, to protect all intellectual property relating to the Group and operations. We purchase and utilise fully licensed software in our operations.

For the 2020 Reporting Period, the Group did not have any of any infringement of its or any other intellectual property rights including which had or could have a material adverse effect on our business, and there were no legal proceedings against the Group. We will continue to maintain similar results on intellectual property rights in the coming years ahead.

Privacy

The Group's main business and operation has generated a substantial volume of private, confidential and sensitive information of customers, suppliers, business partners including the operation status and financial positions, commercial terms of contracts, general background information, patented production technology, etc. These types of information are extremely sensitive and important, and by law, have to be cautiously safeguarded and protected. The Group fully understands its obligation and has taken measures to ensure strictest protection of the information against unauthorized access, use and disclosure through a variety of security technologies and procedures.

The Group fully abides by all relevant laws and regulations regarding privacy and utilization of data. Our employees have been trained to handle the sensitive information during the course of business with due care. The Group has incorporated the Confidential Clause into the Staff Handbook and Employment Contract, under which all employees are obligated to follow.

During the 2020 Reporting Period, the Group did not have any incidents of non-compliance with relevant laws and regulations that have a significant impact on the Group relating to advertising, labelling and privacy matters. We also target the same result for the coming years ahead.

B7: Anti-corruption

The Group is well aware of the importance of honesty, integrity and fairness in our business operations and has therefore put in place an anti-corruption policy. All employees are required to declare any conflicts of interests in the execution of their roles and duties. Through the establishment of these rules and regulations, the Group encourages all employees to discharge their duties with integrity and comply with the relevant laws and regulations.

Transactions in large monetary sums are processed through bank transactions which require authorized signatories of the appropriate levels depending on the amount involved. Checks and balances have been installed in the Group for money transaction activities and are considered effective and adequate.

During the 2020 Reporting Period, the Group recorded no bribery nor corruption charges and is confident to achieve a similar result for the coming years ahead.

B8: Community Investment

The Group fully understands our social obligations and the need for re-contributing to the society. Through the day- to-day contact with various local government officials and industry leaders, the Group continues to explore and examine what and how the Group can contribute more and in a better way to the local community and society. The Group encourages and supports our staff and workers to participate in voluntary social welfare works such as to give paid leave for such activities.

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

CORPORATE REORGANISATION AND SHARE OFFER

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

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

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

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 are set out in the audited consolidated financial statements on page 66.

Save for the dividends as set out in note 11 to the consolidated financial statements, the Board does not recommend the payment of any final dividend for the year ended 31 December 2020.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 is set out in the section headed "Management Discussion and Analysis" on the pages 8 to 11 of this report. An analysis of the Group's performance during the year using financial key performance indicatiors is set out in the section headed "Management Discussion and Analysis" of this report.

Saved as above, despite the COVID-19 outbreak, the Group's revenue for the year ended 31 December 2020 was approximately RMB233.2 million, representing an increase of approximately 9.6% as compared to the corresponding year ended 31 December 2019. Moreover, the Group recorded a profit attributable to the owners of the Company of approximately RMB20.8 million whilst the profit attributable to owners of the Company last year was approximately RMB20.5 million. As a result, the Director is of the view that it has a direct impact for the growth of its core business in a wave of COVID-19.

PROSPECTS

Since the beginning of 2020, the outbreak of the COVID-19 has severely and adversely impacted the world's economic activities. At the start of the year, the COVID-19 outbreak was clearly evident in the People's Republic of China (the "**PRC**") and a few Asian markets, such as Japan and Korea. Subsequently, this caused the respective governments to announce different levels of lockdown across the region. Inevitably, lockdowns have hampered the supply chain and local dining restaurants in the food and beverage industry with market players forced to shut down local dining restaurants temporarily. The global industry is facing challenges from all directions because of the COVID-19 outbreak. The COVID-19 outbreak has led to increased levels of inventories at restaurants, as a consequence of the temporary closures of local dining restaurants. The demand for takeaway related business is increasing at an exponential rate during the lock down of all cities in PRC. With effective measures and control over the COVID-19 by the PRC government, the PRC removed the lock down orders from the PRC authorities earlier. After over a year of having takeaway service, the people get used to having a takeaway orders to maintain social distancing and other structural changes in social activities such as work-from-home arrangements, limited in-person contact and more exercise to maintain a healthier lifestyle. The shift in consumer behaviour is likely to accelerate the convergence between takeaway business and use of takeaway box, which is favourable for the development of disposable food storage container business.

In view of the challenging market conditions as mentioned above, while the Group will continue to focus on its core business of the sales of disposable food container, it will explore new business opportunities with an aim of broadening its source of income and maximising profit and return for the Group and shareholders of the Company in the long run. The Group will endeavour to increase its market share and attract new customers to enlarge its client base through conducting more marketing activities and developing sales and marketing teams.

FINANCIAL SUMMARY

A financial summary of the published results and of the assets and liabilities of the Group is set out on page 6 to 7 of this report.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Except for those included in the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Group has no definite future plans for material investments and capital assets.

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

Details of the use of proceeds and comparison of business objectives with actual business progress are set out in the section headed "Management Discussion and Analysis" on page 10 to 11 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year ended 31 December 2020 are set out in note 13 to the audited consolidated financial statements.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2020.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2020 are set out in note 23 to the audited consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 68.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB35.6 million (2019: RMB14.9 million). Details of the reserves of the Company as at 31 December 2020 are set out in note 24 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the listing and during the year ended 31 December 2020, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase, cancel or sell any of such listed securities for the year ended 31 December 2020.

DIRECTORS

The Directors of the Company during the year ended 31 December 2020 and up to the date of this report were as follows:

Executive Directors

Mr. Xu Youjiang (appointed as a director on 13 December 2018 and re-designated as chairman and executive director on 9 May 2019.

Ms. Xu Liping (appointed as a director on 18 March 2019 and re-designated as our chief executive officer and executive director on 9 May 2019 and appointed as chief executive officer on 9 May 2019).

Mr. Zhang Yuansheng (appointed as a director on 18 March 2019 and re-designated as an executive director on 9 May 2019).

Independent non-executive Directors

Mr. Li Danny Fui Lung (appointed on 13 July 2020)

Mr. Liu Dajin (appointed on 13 July 2020)

Mr. Deng Zhihuang (appointed on 13 July 2020)

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

CONFIRMATION OF INDEPENDENCE

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

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

(a) Executive Directors

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

(b) Independent non-executive Directors

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

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 12 to 14 of this report.

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

Save as disclosed in this report, none of the Directors or an entity connected with any of them had any material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance in relation to the business of the Group to which the Company or any of its subsidiaries, parent company or subsidiaries of the parent company was a party and subsisting at any time during or at the end of the year ended 31 December 2020.

As at 31 December 2020, no contract of significance had been entered into between the Company, or any of its subsidiaries and Mr. Xu and Prize Investment Limited (the "**Controlling Shareholders**") of the Company or any of their subsidiaries.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed in this report, at no time during the year ended 31 December 2020 was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its specified undertakings as defined in the Companies (Report of the Board of Directors) Regulation or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

As at 31 December 2020, the Company did not enter into or have any management and/or administration contracts in respect of the whole or any principal business of the Company.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus and above, the Directors are not aware of any business and interest of the Directors nor the Controlling Shareholders of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interests which any such person has or may have with the Group during the year ended 31 December 2020 and up to the date of this report.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

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

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

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

Each of the Controlling Shareholders has confirmed to the Company of her/its compliance with the Deed of Non-Competition during the year ended 31 December 2020 and up to the date of this report. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the Controlling Shareholders during the year ended 31 December 2020 and up to the date of this report.

DISCLOSURE OF DIRECTORS' INTERESTS

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

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") as (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(i) Long positions in Shares and underlying Shares

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

Note

(1) Mr. Xu holds the entire issued share capital of Prize Investment Limited. Accordingly, Mr. Xu is deemed to be interested in the shares held by Prize Investment Limited under the SFO.

(2) Ms. Xu Liping is the spouse of Mr. Xu and is therefore deemed to be interested in the shares in which Mr. Xu is interested under the SFO.

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

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

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

Notes:

1. The entire issued share capital of Merit Winner was held by Mr. Hui. Accordingly, Mr. Hui is deemed to be interested in the Shares held by Merit Winner under the SFO.

2. Ms. Hui Mei Nga is the spouse of Mr. Hui and is therefore deemed to be interested in the Shares in which Mr. Hui is interested under the SFO.

3. The entire issued share capital of Sun Kong was held by Mr. Wong. Accordingly, Mr. Wong is deemed to be interested in the Shares held by Sun Kong under the SFO.

4. Ms. Chan Lai Yin is the spouse of Mr. Wong and is therefore deemed to be interested in the Shares in which Mr. Wong is interested under the SFO.

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

INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Grand Moore Capital Limited ("**Grand Moore**") to be the compliance adviser. As informed by Grand Moore, neither Grand Moore nor any of its directors or employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement dated 12 June 2019 entered into between the Company and Grand Moore (the "**Compliance Adviser Agreement**") as at 31 December 2020.

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

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year or subsisted at the end of the year.

DEBENTURES

The Company did not issue any debentures during the year ended 31 December 2020.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Directors are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operations of the Group. During the year ended 31 December 2020, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of revenue for the year ended 31 December 2020 attributable to the Group's major customers and the percentage of purchases for the year ended 31 December 2020 attributable to the Group's major suppliers were as follows:

(1) The aggregate amount of revenue attributable to the Group's five largest customers represented approximately 32.0 of the Group's revenue. The amount of revenue from the Group's largest customer represented approximately 6.9 of the Group's total revenue.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 65.4 of the Group's revenue. The amount of purchases from the Group's largest supplier represented approximately 19.0 of the Group's total purchases.

None of the Directors nor any of their close associates nor any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year ended 31 December 2020.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions entered into by the Group in 2020 are set out in note 26 to the consolidated financial statements.

Save as aforesaid, none of the related party transactions set out in note 26 to the consolidated financial statements constitute a "connected transaction" or "continuing connected transaction" subject to independent shareholders' approval, annual review and all disclosure requirements under Chapter 20 of the GEM Listing Rules because either (i) the transaction was an one-off transaction which took place before the Listing; or (ii) the transaction was contiuous in nature but had been discontinued before the Listing.

CORPORATE GOVERNANCE

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

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 15 to 27 of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

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

The Company has maintained a directors and officers liability insurance during the year ended 31 December 2020. To the extent as permitted by the Companies Ordinance, a directors' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 150 employees (2019: 125 employees). Remuneration is determined with reference to market terms and in accordance with the performance, qualification(s) and experience of each individual employee. Discretionary bonuses, based on each individual's performance, are paid to employees as recognition and in reward for their contributions. Other fringe benefits such as medical insurance, retirement benefits and other allowances are offered to all the Group's employees.

DONATIONS

The Group donated approximately 6,000 cartons of lunch boxes with aggregate selling prices of approximately RMB1.0 million (2019: nil).

EVENTS AFTER THE REPORTING PERIOD

No subsequent events occurred after 31 December 2020, which may have a significant effect, on the assets and liabilities of future operation of the Group.

RELATIONSHIP WITH STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its key stakeholders, including its employees, customers and suppliers, to meet its immediate and long-term business goals. During the year ended 31 December 2020, there were no material and significant disputes between the Group and its employees, customers and suppliers.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report, which forms part of this report, is set out on pages 28 to 48 of this report.

ANNUAL GENERAL MEETING

The first AGM of the Company will be held on 31 May 2021, the notice of which shall be sent to the shareholders of the Company in accordance with the Articles, the GEM Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain entitlements to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from 26 May 2021, Wednesday to 31 May 2021, Monday, both days inclusive, during which period no transfer of Shares will be registered.

Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 pm on 25 May 2021.

AUDITOR

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

By order of the Board
Yik Wo International Holdings Limited

Mr. Xu Youjiang
Chairman

31 March 2021

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Yik Wo International Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 66 to 112, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Expected Credit Losses ("ECL") Assessment of Trade Receivables

Refer to the summary of significant accounting policies in note 2.7, note 17 and 28.2 to the consolidated financial statements.

Key Audit Matter	How the matter was addressed in our audit
At 31 December 2020, the carrying amount of the Group's trade receivables amounted to approximately RMB33,105,000 net of nil ECL allowance. The ECL assessment of trade receivables involved significant management's judgment and use of estimates to ascertain the recoverability of trade receivables. ECL allowance for trade receivables are based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, aging of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. We have identified the ECL assessment of trade receivables as a key audit matter because of its significance to the consolidated financial statements and the assessment involves significant management's judgment and use of estimates.	Our procedures in relation to ECL assessment of the trade receivables included the following: • Obtained the Group's policies on credit policy given to customers and an understanding of how the management assesses the impairment of trade receivables under the ECL model; • Tested, on a sample basis, the ageing analysis of the trade receivables by comparing with the relevant sales invoices; • Assessed the reasonableness of management's ECL allowance estimates by examining the information used by management to form such judgements, on as sample basis, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward looking information, and assessing whether there was an indication of management bias when recognising ECL allowance; and • Involved the valuation specialist to assess the valuation methodology and approach adopted by management in ECL assessment.

Valuation of Inventories

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

Key Audit Matter	How the matter was addressed in our audit
At 31 December 2020, the Group had inventories of approximately RMB7,327,000 net of nil provisions. The directors make significant judgements regarding the value of inventory provisions for slow-moving and obsolescence. In arriving at the net realised value of inventories, estimation and management judgement, including historical ageing statistics and price of future sales of inventories, were exercised. We have identified valuation of inventories as a key matter to our audit considering the calculations are subject to significant judgements of management.	Our procedures in relation to assessing the appropriateness of the valuation of the inventories included the following: • Obtained an understanding of how the management identifies the slow-moving and obsolete inventories and assesses the amount of allowance for inventories; • Tested, on a sample basis, the ageing of inventories; • Tested, on a sample basis, the costs expected to incur to bring the raw materials into finished goods and compared to historical data; • Compared, on a sample basis, the volume and selling price of subsequent sales to quantity and cost of inventories at reporting period end; and • Evaluated, on a sample basis, the sufficiency of allowance where the estimated net realisable value is lower than the cost.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2020 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

31 March 2021

Chi-Kit Shaw
Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	5	**233,181**	212,795
Costs of sales		**(164,015)**	(152,375)
Gross profit		**69,166**	60,420
Other income	6	**143**	59
Selling expenses		**(11,543)**	(11,019)
Administrative and other operating expenses		**(25,008)**	(20,042)
Profit from operations		**32,758**	29,418
Finance costs	7	**(212)**	(226)
Profit before income tax	8	**32,546**	29,192
Income tax expense	9	**(11,786)**	(8,427)
Profit for the year		**20,760**	20,765
Other comprehensive income/(expenses), net of tax:			
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operation recognised		**484**	(96)
Total comprehensive income for the year		**21,244**	20,669
Profit for the year attributable to:			
Equity holders of the Company		**20,760**	20,501
Non-controlling interests		**—**	264
		20,760	20,765
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**21,244**	20,405
Non-controlling interests		**—**	264
		21,244	20,669
Earnings per share attributable to equity holders of the Company			
Basic and diluted	12	**RMB3.99 cents**	RMB4.56 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**45,596**	28,077
Intangible assets	14	**4,500**	6,500
		50,096	34,577
Current assets			
Inventories	16	**7,327**	6,390
Trade and other receivables	17	**33,870**	38,370
Amount due from the ultimate holding company	18	**—**	1
Amount due from a shareholder	19	**—**	6,018
Cash and cash equivalents	20	**72,396**	26,171
		113,593	76,950
Current liabilities			
Trade and other payables	21	**26,688**	26,109
Income tax payable		**2,564**	2,267
Lease liabilities	22	**944**	595
		30,196	28,971
Net current assets		**83,397**	47,979
Total assets less current liabilities		**133,493**	82,556
Non-current liabilities			
Lease liabilities	22	**3,415**	3,703
Net assets		**130,078**	78,853
EQUITY			
Share capital	23	**5,418**	1
Reserves	24	**124,660**	78,852
Total Equity		**130,078**	78,853

Xu Youjiang
Director

Zhang Yuansheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to equity holders of the Company							
	Share Capital RMB'000 (Note 23)	Share Premium RMB'000 (Note 24) (note (i))	Statutory Reserve RMB'000 (Note 24) (note (i))	Translation Reserve RMB'000 (Note 24) (note (i))	Retained Profits RMB'000 (note (i))	Total RMB'000	Non-Controlling Interest RMB'000	Total Equity RMB'000
As at 1 January 2019	20,001	—	7,812	—	49,217	77,030	4,054	81,084
Profit for the year	—	—	—	—	20,501	20,501	264	20,765
Other comprehensive income								
– Exchange differences on translation of foreign operation recognised	—	—	—	(96)	—	(96)	—	(96)
Total comprehensive income for the year	—	—	—	(96)	20,501	20,405	264	20,669
Transaction with owner								
Transfer to statutory reserve	—	—	2,017	—	(2,017)	—	—	—
Dividend declared (note 11)	—	—	—	—	(21,755)	(21,755)	(1,145)	(22,900)
Issue of share capital (note 23 (i) and (ii))	—*	20,000	—	—	—	20,000	—	20,000
Acquisition of Hengsheng Animation (note (ii))	(20,000)	—	—	—	3,173	(16,827)	(3,173)	(20,000)
As at 31 December 2019 and 1 January 2020	**1**	**20,000**	**9,829**	**(96)**	**49,119**	**78,853**	**—**	**78,853**
Profit for the year	**—**	**—**	**—**	**—**	**20,760**	**20,760**	**—**	**20,760**
Other comprehensive income								
– Exchange differences on translation of foreign operation recognised	**—**	**—**	**—**	**484**	**—**	**484**	**—**	**484**
Total comprehensive income for the year	**—**	**—**	**—**	**484**	**20,760**	**21,244**	**—**	**21,244**
Transaction with owner								
Transfer to statutory reserve	**—**	**—**	**3,247**	**—**	**(3,247)**	**—**	**—**	**—**
Dividend declared (note 11)	**—**	**—**	**—**	**—**	**(7,522)**	**(7,522)**	**—**	**(7,522)**
Issuance of ordinary shares pursuant to Capitalisation Issue (note 23(iii))	**4,063**	**(4,063)**	**—**	**—**	**—**	**—**	**—**	**—**
Issuance of ordinary shares pursuant to Share Offer (note 23(iv))	**1,354**	**36,149**	**—**	**—**	**—**	**37,503**	**—**	**37,503**
As at 31 December 2020	**5,418**	**52,086**	**13,076**	**388**	**59,110**	**130,078**	**—**	**130,078**

* Amount less than RMB1,000.

Notes:

(i) The Company issued 999 ordinary shares on 4 January 2019 of HK$0.01 each at par to Prize Investment. On 30 April 2019, 7,200 ordinary shares of HK$0.01 each were issued at par to Prize Investment.

(ii) On 23 April 2019 and 7 May 2019, the Company entered an agreements with two independent third parties to allot and issue 1,200 and 600 ordinary shares of HK$0.01 each at the total consideration of RMB13,333,000 and HK$7,610,000 (equivalent to RMB6,667,000) respectively ("**Pre-IPO Investment**").

(iii) Pursuant to the written resolutions of the shareholders passed on 19 June 2020, the authorised share capital of the Company increased to HK$50,000,000 (equivalent to RMB45,147,000) divided into 5,000,000,000 ordinary shares of HK$0.01 each by creation of an additional 4,962,000,000 shares. 449,990,000 ordinary shares of HK$0.01 each were allotted and issued (equivalent to RMB4,063,000), credited as fully paid at par, by way of capitalisation from the share premium of the Company ("**Capitalisation Issue**").

(iv) On 13 July 2020, 150,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.4 per share in respect of the Share Offer. The proceeds of HK$1,500,000 (equivalent to RMB1,354,000) representing the par value of these ordinary shares, were credited to the Company's share capital account. The remaining proceeds less the listing cost directly attributable to the issue of shares amounted to HK$39,638,000 (equivalent to RMB36,149,000) were credited to the Company's share premium account.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Profit before income tax		**32,546**	29,192
Adjustments for:			
Depreciation of property, plant and equipment		**7,177**	6,290
Amortisation of intangible assets		**2,000**	2,000
Loss on disposal of property, plant and equipment		**23**	154
Interest income		**(143)**	(59)
Interest expense for lease arrangements		**212**	226
Operating cash flows before working capital changes		**41,815**	37,803
Increase in inventories		**(937)**	(474)
Decrease/(Increase) in trade and other receivables		**6,847**	(6,359)
Decrease in trade and other payables		**(924)**	(721)
Cash generated from operations		**46,801**	30,249
Interest paid		**(212)**	(226)
Income taxes paid		**(11,489)**	(8,149)
Net cash generated from operating activities		**35,100**	21,874
Cash flows from investing activities			
Interest received		**143**	59
Purchase of property, plant and equipment		**(23,798)**	(4,146)
Proceeds from disposal of property, plant and equipment		**67**	20
Net cash used in investing activities		**(23,588)**	(4,067)
Cash flows from financing activities			
Payment of lease liabilities		**(721)**	(584)
Issue of shares	23	**—**	20,000
Acquisition of interests in Hengsheng Animation		**—**	(20,000)
Transactions costs directly attributable to issue of ordinary shares		**(19,226)**	—
Proceeds from Share Offer		**54,176**	—
Net cash generated from/(used in) financing activities		**34,229**	(584)
Net increase in cash and cash equivalents		**45,741**	17,223
Cash and cash equivalents at the beginning of the year		**26,171**	9,044
Effect of foreign exchange rate changes		**484**	(96)
Cash and cash equivalents at the end of the year	20	**72,396**	26,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Yik Wo International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") was incorporated as an exempted company in the Cayman Islands on 13 December 2018 with limited liability. The addresses of the Company's registered office and principal place of business are PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Wukeng Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, People's Republic of China (the "**PRC**"), respectively. The Company was formerly known as Yihe International Holdings Limited and changed to its current name on 15 February 2019.

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

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

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

These consolidated financial statements for the year ended 31 December 2020 were approved for issue by the board of directors on 31 March 2021.

1.2 Reorganisation and basis of presentation

Pursuant to a reorganisation (the "**Reorganisation**") of the Company in connection with the listing of its shares on the GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Company and its subsidiaries on 31 May 2019. Details of the Reorganisation are set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in the Company's prospectus dated 30 June 2020.

Prior to the incorporation of the Company and completion of the Reorganisation on 31 May 2019, the Group's business was carried out by Hengsheng Animation, which was under the common control of the Controlling Shareholder.

Pursuant to the Reorganisation, which was completed by interspersing the Company and other intermediate holding companies between Hengsheng Animation and its shareholders, the Company became the holding company of the companies now comprising the Group on 31 May 2019. The Group is under the control of the Controlling Shareholder prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuity entity.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and statement of cash flow for the year ended 31 December 2019 which includes the results, changes in equity and cash flows of the companies now comprising the Group have been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as if the Company had always been the holding of the Group and the current group structure had been in existence throughout the year ended 31 December 2019, or since their respective dates of incorporation, where it is a shorter period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

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

2.2 Basis of consolidation

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

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

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

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

2.2 Basis of consolidation *(continued)*

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

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

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

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

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

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

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

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

2.3 Foreign currency translation

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

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

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

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

2.4 Property, plant and equipment

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

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

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

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

2.4 Property, plant and equipment *(continued)*

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

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

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

Construction in progress represents mould under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

Intangible assets (other than goodwill)

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

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

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

Research and development costs

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

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

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

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

Research and development costs *(continued)*

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

All other development costs are expensed as incurred.

2.6 Financial instruments

Recognition and derecognition

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

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

Classification and initial measurement of financial assets

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

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

– amortised cost;

– FVTPL; or

– fair value through other comprehensive income ("**FVOCI**").

The classification is determined by both:

– the entity's business model for managing the financial asset; and

– the contractual cash flow characteristics of the financial asset.

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

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

2.6 Financial instruments *(continued)*

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

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

– they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

– the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Classification and measurement of financial liabilities

Trade and other payables

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

2.7 Impairment of financial assets

Recognition and derecognition

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

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

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

2.7 Impairment of financial assets *(continued)*

Recognition and derecognition *(continued)*

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

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("**Stage 1**") and

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

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

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

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

Trade receivables

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

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

Other financial assets measured at amortised cost

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

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

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

2.7 Impairment of financial assets *(continued)*

Recognition and derecognition *(continued)*

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

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

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 28.2.

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

2.8 Impairment of non-financial assets

The following assets are subject to impairment testing:

- Intangible assets;
- Property, plant and equipment; and
- The Company's investment in a subsidiary

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

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

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

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

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

2.9 Inventories

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

2.10 Cash and cash equivalents

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

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

2.11 Leases

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

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

Assets leased to the Group

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

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

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

– the amount of the initial measurement of lease liabilities;

– any lease payments made at or before the commencement date, less any lease incentive received;

– any initial direct costs; and

– restoration costs.

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

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

2.11 Leases *(continued)*

Assets leased to the Group *(continued)*

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

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

2.12 Provisions and contingent liabilities

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

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

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

2.13 Share capital

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

2.14 Revenue recognition

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

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

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

2.14 Revenue recognition *(continued)*

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

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

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

Sales of disposable plastic food storage containers

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

Interest income

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

2.15 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

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

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

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

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

2.15 Employee benefits *(continued)*

Short-term employee benefits

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

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

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

2.16 Borrowing costs

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

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

2.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

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

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

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

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

2.17 Accounting for income taxes *(continued)*

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

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

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

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

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

(a) income or loss excluding reversals of temporary differences; and

(b) reversals of existing temporary differences.

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

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

2.18 Segment reporting

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

2.19 Related parties

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

(a) the party is a person or a close member of that person's family and if that person:

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

(b) the party is an entity and if any of the following conditions applies:

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

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

3. ADOPTION OF NEW AND AMENDED HKFRSS

New and amended HKFRSs that are effective for annual periods beginning on or after 1 January 2020

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

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

Issued but not yet effective HKFRSs

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

HKFRS 17	Insurance Contracts and related amendments[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[6]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[4]
Amendments to HKFRS 16	Property, Plant and Equipment – Proceeds before Intended Use[3]
Amendments to HKFRS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018 – 2020[3]
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statement – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]

1 Effective for annual periods beginning on or after 1 June 2020.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after 1 January 2022.
4 Effective for annual periods beginning on or after 1 January 2023.
5 Effective date to be determined.
6 Effective for business combination for which the acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimation of uncertainty

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

Impairment of property, plant and equipment and intangible assets

Items of property, plant and equipment (note 13) and intangible assets (note 14) are tested for impairment if there is any indication that the carrying amounts of these assets may not be recoverable and the assets are subject to an impairment loss. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount (i.e. higher of the assets fair value less cost of disposal and value in use) and the amount of the write-down is charged against the consolidated statement of profit or loss and other comprehensive income. The carrying amount of property, plant and equipment as at 31 December 2020 amounted to RMB45,596,000 (2019: RMB28,077,000). The carrying amount of intangible assets as at 31 December 2020 amounted to RMB4,500,000 (2019: RMB6,500,000).

Net realisable value of inventories

Net realisable value of inventories (note 16) is based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimation at the end of each reporting period. The carrying amount of inventories as at 31 December 2020 amounted to RMB7,327,000 (2019: RMB6,390,000).

Estimation of impairment of trade and other receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes estimates based on the aging of its trade receivable balances, customers' creditworthiness, and historical write-off experience adjusted for forward- looking factors specific to the economic environment. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance. Details of trade receivables are set out in note 17. For the year ended 31 December 2020, no impairment loss was recognised on trade receivables (2019: nil).

Critical judgements

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

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

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

Critical judgements *(continued)*

Election of renewal of lease agreements

The Group has exercised considerable judgement in determining whether it will exercise the renewal options of lease agreements. The Group will exercise the renewal options considering that the lease for office and factory premises is critical for the Group's operations. Details of the renewals are set out in note 22 to the consolidated financial statements.

5. REVENUE

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

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

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

Disaggregation of revenue from contracts with customers

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

	2020 RMB'000	2019 RMB'000
Brand:		
Products under "JAZZIT" brand	**207,785**	191,518
Non-branded products	**25,396**	21,277
	233,181	212,795
Nature:		
Regular products	**170,097**	168,681
Customised products	**61,271**	42,108
Others	**1,813**	2,006
	233,181	212,795

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

5. REVENUE *(continued)*

Geographical information

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

	2020 RMB'000	2019 RMB'000
PRC (place of domicile)	**229,085**	209,991
Overseas	**4,096**	2,804
	233,181	212,795

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

Information about major customers

Other than a customer contributing 12.1% of the Group's revenue for the year ended 31 December 2020 (2019: 12.0%), no other customers contribute over 10% of revenue to the Group during the year ended 31 December 2020 (2019: nil).

6. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Interest income	**143**	59

7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest expense for lease arrangements	**212**	226

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2020 RMB'000	2019 RMB'000
Depreciation		
– Owned used	**6,391**	5,627
– Held under leases	**786**	663
Amortisation of intangible assets included in administrative and other operating expenses	**2,000**	2,000
Auditors' remuneration	**623**	24
Short-term lease charges in respect of		
– Premises	**38**	74
Cost of inventories recognised as an expense	**143,940**	134,387
Research and development cost (including staff costs)	**5,615**	7,437
Loss on disposals of property, plant and equipment	**23**	154
Listing expenses	**9,997**	4,790
Staff costs (including directors' emoluments)		
Salaries, allowances and other benefits	**14,316**	12,410
Contributions to defined contribution retirement plans (Note)	**56**	494
	14,372	12,904

Note: The Group was entitled to be exempt from contributions to defined contribution retirement plans from the local government authority in the PRC.

9. INCOME TAX EXPENSE

No provision for profits tax has been provided by the Company as the Company had no assessable profits subject to taxation in any jurisdiction. No provision for Hong Kong profits tax has been provided as the Group had no assessable profits arising from Hong Kong during the year ended 31 December 2020 (2019: nil).

The provision for PRC enterprise income tax has been provided at the applicable tax rate of 25% (2019: 25%) on the assessable profits of the PRC subsidiaries.

	2020 **RMB'000**	2019 RMB'000
Current tax		
– Provision for PRC enterprise income tax	**10,950**	7,717
– Withholding tax	**836**	—
– Underprovision in prior year	**—**	710
Income tax expense	**11,786**	8,427

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

	2020 **RMB'000**	2019 RMB'000
Profit before income tax	**32,546**	29,192
Tax on profit before income tax, calculated at the rate of 25% (2019: 25%)	**8,137**	7,298
Non-deductible expenses	**2,813**	419
Withholding tax	**836**	—
Under provision in prior year	**—**	710
Income tax expense	**11,786**	8,427

As at 31 December 2020, no deferred income tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in the PRC. In the opinion of the directors of the Company, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investment in subsidiary in the PRC for which deferred income tax liabilities have not been recognised totalled approximately RMB59,988,000 as at 31 December 2020 (2019: RMB49,644,000). There are no other significant unrecognised deferred tax assets or liabilities as at 31 December 2020 and 2019.

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

10.1 Directors' and Chief Executives' emoluments

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

* Amount less than RMB 1,000.

	Year ended 31 December 2019				
	Fees RMB'000	Salaries, allowances and benefits RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Xu	—	298	23	4	325
Mr. Zhang	—	197	15	4	216
Ms. Xu	—	224	18	4	246
	—	719	56	12	787

10. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

10.1 Directors' and Chief Executives' emoluments *(continued)*

Notes:

(a) Mr. Xu was appointed as director of the Company on 13 December 2018 and redesignated as chairman and chief executive officer on 9 May 2019.

(b) Mr. Zhang and Ms. Xu were appointed as directors of the Company on 18 March 2019 and redesignated as executive directors on 9 May 2019.

(c) Mr. Li, Mr. Liu and Mr. Deng were appointed as independent non-executive directors of the Company on 19 June 2020.

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

10.2 Five highest paid individuals

The five highest paid individuals of the Group during the year ended 31 December 2020 include 1 director (2019: 3 directors) whose emoluments are disclosed in note 10.1. The aggregate emoluments in respect of the remaining 4 individuals (2019: 2 individuals) are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	**1,460**	742
Retirement scheme contributions	**17**	15
	1,477	757

The above individuals' emoluments are within the following bands:

	2020 Number of individuals	2019 Number of individuals
HK$ nil to HK$1,000,000	**4**	2

No directors or the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2020 (2019: nil). No directors or the five highest paid individuals have waived or agreed to waive any emoluments during the year ended 31 December 2020 (2019: nil).

11. DIVIDENDS

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

	2020 **RMB'000**	2019 RMB'000
Dividend	**7,522**	22,900

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

12. EARNINGS PER SHARE

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

	2020	2019
Earnings		
Profit for the year attributable to equity holders of the Company (RMB'000)	**20,760**	20,501
Weighted average number of ordinary shares (in thousand)	**520,274**	450,000

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2020 includes (i) the number of ordinary shares of the Company immediately after the Capitalisation Issue (note 23(iii)), as if all these shares had been in issue throughout the year ended 31 December 2020, and (ii) the weighted average of 150,000,000 new ordinary shares issued pursuant to the Share Offer (note 23(iv)).

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2019 representing the number of ordinary shares of the Company immediately after the Capitalisation Issue (note 23(iii)), as if all these shares had been in issue throughout the year ended 31 December 2019.

The diluted earnings per share equal to basic earnings per share as there was no potential ordinary share in issue for the years ended 31 December 2019 and 2020.

13. PROPERTY, PLANT AND EQUIPMENT

	Building held under leases RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Mould RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
As at 1 January 2019	5,175	23,814	331	13,308	2,295	—	44,923
Additions	—	1,926	—	620	—	1,387	3,933
Transfer	—	—	—	850	—	(850)	—
Disposals	—	(80)	—	(380)	—	—	(460)
As at 31 December 2019	5,175	25,660	331	14,398	2,295	537	48,396
As at 1 January 2020	**5,175**	**25,660**	**331**	**14,398**	**2,295**	**537**	**48,396**
Additions	**988**	**17,072**	**—**	**2,098**	**771**	**3,857**	**24,786**
Transfer	**—**	**—**	**—**	**3,484**	**—**	**(3,484)**	**—**
Disposals	**—**	**(50)**	**—**	**(1,364)**	**—**	**—**	**(1,414)**
As at 31 December 2020	**6,163**	**42,682**	**331**	**18,616**	**3,066**	**910**	**71,768**
Accumulated depreciation							
As at 1 January 2019	—	4,823	265	8,113	1,114	—	14,315
Charge for the year	663	3,049	30	2,303	245	—	6,290
Written back on disposal	—	(15)	—	(271)	—	—	(286)
As at 31 December 2019	663	7,857	295	10,145	1,359	—	20,319
As at 1 January 2020	**663**	**7,857**	**295**	**10,145**	**1,359**	**—**	**20,319**
Charge for the year	**786**	**3,427**	**10**	**2,709**	**245**	**—**	**7,177**
Written back on disposal	**—**	**(28)**	**—**	**(1,296)**	**—**	**—**	**(1,324)**
As at 31 December 2020	**1,449**	**11,256**	**305**	**11,558**	**1,604**	**—**	**26,172**
Net book amount							
As at 31 December 2020	**4,714**	**31,426**	**26**	**7,058**	**1,462**	**910**	**45,596**
As at 31 December 2019	4,512	17,803	36	4,253	936	537	28,077

14. INTANGIBLE ASSETS

	Trademark RMB'000
Cost	
As at 1 January 2019, 31 December 2019 and 2020	**9,500**
Accumulated amortisation	
As at 1 January 2019	1,000
Provided for the year	2,000
As at 31 December 2019	**3,000**
Provided for the year	**2,000**
As at 31 December 2020	**5,000**
Net book amount	
As at 31 December 2020	**4,500**
As at 31 December 2019	6,500

15. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2019 and 2020 are as follows:

Company name	Place of incorporation/ establishment	Registered/ Issued and fully paid up capital	Equity interest attributable to the Group		Principal activities
			2020	2019	
Hengsheng Animation	The PRC	RMB:47,000,000 (2019: RMB20,000,000)	**100%**	100%	Design and development, manufacturing and sales of disposable plastic food storage containers
Yihe Investment Holdings Limited	BVI	1 share of US$1	**100%***	100%*	Investment holding
Silver Excel	Hong Kong	1 share	**100%**	100%	Investment holding

* Issued capital held directly by the Company.

16. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**4,228**	3,038
Finished goods	**3,099**	3,352
	7,327	6,390

17. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables		
– from third parties	**33,105**	35,442
Prepayments	**765**	2,928
	33,870	38,370

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

Trade receivables

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

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

	2020 RMB'000	2019 RMB'000
Within 30 days	**16,719**	19,229
31-60 days	**16,386**	16,213
	33,105	35,442

17. TRADE AND OTHER RECEIVABLES *(continued)*

Trade receivables *(continued)*

Trade receivables are mainly denominated in RMB. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. As at 31 December 2020, trade receivables of RMB3,235,000 were past due (2019: nil) and were subsequently settled. During the year ended 31 December 2020, no written off was made against the trade receivables (2019: nil).

Generally, the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base. As at 31 December 2020, there has not been any significant change in the gross amounts of trade receivables that has affected the estimation of the loss allowance during the year (2019: nil).

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 28.2.

18. AMOUNT DUE FROM THE ULTIMATE HOLDING COMPANY

The amount due was non-trade in nature, unsecured, interest free and repayable on demand.

Name of ultimate holding company	Maximum outstanding during the year ended 31 December 2019 RMB'000	As at 1 January 2019 RMB'000	As at 31 December 2019 RMB'000
Prize Investment	1	1	1

Name of ultimate holding company	**Maximum outstanding during the year ended 31 December 2020 RMB'000**	**As at 1 January 2020 RMB'000**	**As at 31 December 2020 RMB'000**
Prize Investment	**1**	**1**	**—**

19. AMOUNT DUE FROM A SHAREHOLDER

The amount due was non-trade in nature, unsecured and interest free.

Name of shareholder	Maximum outstanding during the year ended 31 December 2019 RMB'000	As at 1 January 2019 RMB'000	As at 31 December 2019 RMB'000
Mr. Xu	6,018	—	6,018

Name of shareholder	Maximum outstanding during the year ended 31 December 2020 RMB'000	As at 1 January 2020 RMB'000	As at 31 December 2020 RMB'000
Mr. Xu	**6,018**	**6,018**	**—**

20. CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Bank balances and cash	**72,396**	26,171

Included in the Group's cash and cash equivalents of approximately RMB72,304,000 (2019: RMB25,904,000) as at 31 December 2020 are bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business. Cash at banks earns interest at floating rates based on daily bank deposit rates.

21. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables		
– To third parties	**24,242**	22,541
Accrued charges and other payables		
– Other tax payable	**366**	436
– Salaries payables	**1,489**	1,060
– Accrued listing expenses	**—**	676
– Other payables and accruals	**591**	1,396
	2,446	3,568
	26,688	26,109

Trade Payables

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

	2020 RMB'000	2019 RMB'000
Within 30 days	**14,860**	12,963
31 days to 90 days	**9,382**	9,578
	24,242	22,541

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

22. LEASE LIABILITIES

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

	2020 RMB'000	2019 RMB'000
Current:		
Third parties	**457**	198
Jinjiang Hengsheng Toys Co., Ltd ("**Hengsheng Toys**") (Note 1)	**487**	397
Non-current:		
Third parties	**1,120**	1,066
Hengsheng Toys	**2,295**	2,637
	4,359	4,298

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

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

The following table shows the future minimum lease payments:

	2020 RMB'000	2019 RMB'000
Within one year	**1,139**	793
One to five years	**3,498**	3,415
After five years	**361**	891
	4,998	5,099
Finance charges	**(639)**	(801)
	4,359	4,298

22. LEASE LIABILITIES *(continued)*

	2020 RMB'000	2019 RMB'000
Present value of minimum lease payments:		
Due within one year	**944**	595
Due in second to fifth years	**3,068**	2,864
Due after the fifth years	**347**	839
	4,359	4,298
Less: Portion due within one year included under current liabilities	**(944)**	(595)
Portion due after one year included under non-current liabilities	**3,415**	3,703

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

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

2020

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

2019

Right-of-use asset	No of lease	Range of remaining lease term Year	Average remaining lease term Year
Buildings	9	4-9	7-8

22. LEASE LIABILITIES *(continued)*

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less). For the year ended 31 December 2020, the expenses incurred for short term lease not included in the measurement of lease liability is RMB38,000 (2019:RMB74,000).

During the year ended 31 December 2020, the total cash outflows for the leases are RMB971,000 (2019:RMB884,000).

Note 1: Hengsheng Toys is controlled by Mr. Hui Man Kit. Mr. Hui Man Kit is the brother of Mr. Xu, the controlling shareholder and executive director of the Company. Mr. Xu was a director of Heng Sheng Holding Group Limited, the ultimate holding company of Hengsheng Toys, from July 2015 to March 2019.

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

23. SHARE CAPITAL

	2020		2019	
	No. of shares	RMB'000	No. of shares	RMB'000
Authorised:				
Ordinary share of HK$0.01				
As at 1 January	**38,000,000**	**343**	38,000,000	343
Increased in authorised share capital (note(iii))	**4,962,000,000**	**44,804**	—	—
As at 31 December	**5,000,000,000**	**45,147**	38,000,000	343
Issued and fully paid:				
As at 1 January	**10,000**	**1**	1	1
Issue of shares (note (i))	**—**	**—**	8,199	—*
Issue of shares pursuant to Pre-IPO Investment (note (ii))	**—**	**—**	1,800	—*
Issue of ordinary shares pursuant to the Capitalisation Issue (note (iii))	**449,990,000**	**4,063**	—	—
Issue of ordinary shares pursuant to the Share Offer (note (iv))	**150,000,000**	**1,354**	—	—
As at 31 December	**600,000,000**	**5,418**	10,000	1

* Amount less than RMB1,000.

Notes:

(i) The Company issued 999 ordinary shares on 4 January 2019 of HK$0.01 each at par to Prize Investment. On 30 April 2019, 7,200 ordinary shares of HK$0.01 each were issued at par to Prize Investment.

(ii) On 23 April 2019 and 7 May 2019, the Company entered an agreements with two independent third parties to allot and issue 1,200 and 600 ordinary shares of HK$0.01 each at the total consideration of RMB13,333,000 and HK$7,610,000 (equivalent to RMB6,667,000) respectively ("**Pre-IPO Investment**").

23. SHARE CAPITAL *(continued)*

Notes: *(continued)*

(iii) Pursuant to the written resolutions of the shareholders passed on 19 June 2020, the authorised share capital of the Company increased to HK$50,000,000 (equivalent to RMB45,147,000) divided into 5,000,000,000 ordinary shares of HK$0.01 each by creation of an additional 4,962,000,000 shares. 449,990,000 ordinary shares of HK$0.01 each were allotted and issued (equivalent to RMB4,063,000), credited as fully paid at par, by way of capitalisation from the share premium of the Company ("**Capitalisation Issue**").

(iv) On 13 July 2020, 150,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.4 per share in respect of the Company's initial public offering ("**Share Offer**"). The proceeds of HK$1,500,000 (equivalent to RMB1,354,000) representing the par value of these ordinary shares, were credited to the Company's share capital account. The remaining proceeds less the listing cost directly attributable to the issue of shares amounted to HK$39,638,000 (equivalent to RMB36,149,000) were credited to the Company's share premium account.

24. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2020 and 2019 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

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

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

Statutory reserve

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

Translation reserve

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

Distributable reserves

As at 31 December 2020, the reserves available for distribution to the shareholders of the Company amounted to RMB35,618,000 (2019:RMB14,864,000).

25. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current asset			
Investments in subsidiaries	15	**—***	—*
Current assets			
Amount due from the ultimate holding company	18	**—**	1
Amount due from subsidiaries (Note(i))		**44,456**	20,440
Cash and cash equivalents		**21**	199
		44,477	20,640
Current liabilities			
Other payables		**686**	—
Amount due to subsidiaries		**5,726**	5,460
		6,412	5,460
Net current assets		**38,065**	15,180
Net assets		**38,065**	15,180
CAPITAL AND RESERVES			
Share capital	23	**5,418**	1
Reserves (Note(ii))		**32,647**	15,179
Total equity		**38,065**	15,180

* Amount less than RMB1,000.

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

Xu Youjiang
Director

Zhang Yuansheng
Director

25. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

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

	Share premium RMB'000	Translation reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
Balance at 1 January 2019	—	—	—	—
Issue of share capital	20,000	—	—	20,000
Loss and total comprehensive expenses for the year	—	—	(5,136)	(5,136)
Exchange difference on translation to presentation currency	—	315	—	315
Balance at 31 December 2019 and 1 January 2020	**20,000**	**315**	**(5,136)**	**15,179**
Loss and total comprehensive expenses for the year	**—**	**—**	**(3,810)**	**(3,810)**
Exchange difference on translation to presentation currency	**—**	**(3,286)**	**—**	**(3,286)**
Dividend declared (note 11)	**—**	**—**	**(7,522)**	**(7,522)**
Issuance of ordinary shares pursuant to Capitalisation Issue	**(4,063)**	**—**	**—**	**(4,063)**
Issuance of ordinary shares pursuant to Share Offer	**36,149**	**—**	**—**	**36,149**
Balance at 31 December 2020	**52,086**	**(2,971)**	**(16,468)**	**32,647**

26. RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel

	2020 RMB'000	2019 RMB'000
(a) Key management personnel remuneration		
Salaries, allowances and benefits	**1,403**	1,283
Retirement scheme contributions	**17**	25
	1,420	1,308

	2020 RMB'000	2019 RMB'000
(b) Transactions with related party		
Hengsheng Toys		
Rental expenses	**38**	74

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES AND NON-CASH TRANSACTIONS

The changes in the Group's liabilities arising from financing activities and non-cash transactions can be classified as follows:

	Non-cash transactions		Financing activities
	Amount due from a shareholder RMB'000	Amount due from a related company RMB'000	Lease liabilities RMB'000
At 1 January 2019	—	24,214	5,175
Cash transaction:			
– Capital element of lease rentals paid	—	—	(584)
– Interest element of lease rentals paid	—	—	(226)
Non-cash transaction:			
– Effective interest charges (note 7)	—	—	226
– Net off with prepaid lease payments	—	—	(293)
– Transfer (note (i))	24,214	(24,214)	—
– Dividend declared (note (i))	(22,900)	—	—
– Withholding tax accrued for dividend	4,704	—	—
At 31 December 2019 and 1 January 2020	**6,018**	**—**	**4,298**
Cash transaction:			
– Capital element of lease rentals paid	**—**	**—**	**(721)**
– Interest element of lease rentals paid	**—**	**—**	**(212)**
Non-cash transaction:			
– Effective interest charges (note 7)	**—**	**—**	**212**
– Net off with prepaid lease payments	**—**	**—**	**(206)**
– Addition	**—**	**—**	**988**
– Dividend declared (note (ii))	**(7,522)**	**—**	**—**
– Withholding tax accrued for dividend	**1,504**	**—**	**—**
At 31 December 2020	**—**	**—**	**4,359**

Notes:

(i) During the year ended 31 December 2019, Mr.Xu, the controlling shareholder, agreed with Hengsheng Animation to take over the amount due from Fujian Renyue Culture Diffusion Co., Ltd. to Hengsheng Animation of RMB24,214,000. Hengsheng Animation further declared dividend of RMB22,900,000 to its shareholders, Mr. Xu and Mr. Xu Yubin. The amount due from Mr. Xu was partly offset with the dividend payable to shareholders of RMB18,196,000 on a dollar-for-dollar basis.

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

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

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

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

28.1 Categories of financial assets and liabilities

	2020 RMB'000	2019 RMB'000
Financial assets		
Measured at amortised costs:		
Amount due from a shareholder	—	6,018
Amount due from the ultimate holding company	—	1
Trade and other receivables	**33,105**	35,442
Cash and cash equivalents	**72,396**	26,171
	105,501	67,632
Financial liabilities		
Measured at amortised cost:		
Trade and other payables	**26,320**	25,608
Lease liabilities	**4,359**	4,298
	30,679	29,906

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

28.2 Credit risk

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

The Group is exposed to credit risk in relation to its bank deposits, trade and other receivables, amount due from a shareholder and amount due from the ultimate holding company. The Group's maximum exposure to credit risk in relation to financial assets is limited to the carrying amount at the reporting dates as summarized in note 28.1.

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

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

The Group is exposed to concentration of credit risk as at 31 December 2020 on trade receivables from the Group's five largest debtors which accounted for 46% of the Group's total trade receivables (2019: 51%). The management reviews the recoverable amount of each individual receivable regularly to ensure that follow up actions is taken to recover overdue debts. In this regard, the management considers that the Group's credit risk is significantly reduced.

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

Stage 1 When other receivables and amounts due from ultimate holding company and a shareholder are first recognised, the Group recognises an allowance based on 12 months' ECLs.

Stage 2 When other receivables and amounts due from ultimate company and a shareholder have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.

Stage 3 When other receivables and amounts due from ultimate holding company and a shareholder are considered credit-impaired, the Group records an allowance for the lifetime ECLs.

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

28.2 Credit risk *(continued)*

As at 31 December 2019, the credit rating of other receivables and amounts due from ultimate holding company and a shareholder were performing. The Group assessed that the ECL for these receivables and amounts due from ultimate holding company and a shareholder are not material under the 12 months ECL method. Thus no ECL was recognised during the year ended 31 December 2020 (2019: nil). The ECL are summarized as below.

	As at 31 December	
	2020	2019
Trade receivables		
– Current	**0.1%**	0.1%
– Other receivables and amounts due from the ultimate holding company and a shareholder	**N/A**	0.1%

28.3 Liquidity risk

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

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

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

28.3 Liquidity risk *(continued)*

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

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

	Within one year or on demand RMB'000	One to two years RMB'000	Two to five years RMB'000	After five years RMB'000	Total undiscounted amount RMB'000	Carrying amount RMB'000
As at 31 December 2019						
Trade and other payables	25,608	—	—	—	25,608	25,608
Lease liabilities	793	793	2,622	891	5,099	4,298
Total	26,401	793	2,622	891	30,707	29,906

28.4 FAIR VALUE

The management considered the carrying amounts of financial assets and financial liabilities of the Group are not materially different from their fair values as at 31 December 2020 and 2019.

29. CAPITAL MANAGEMENT

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

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as the sum of trade and other payables and lease liabilities less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares and raise new debt financing. The debt to equity ratio as at 31 December 2020 and 2019 were:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade and other payables	**26,688**	26,109
Lease liabilities	**4,359**	4,298
Less: Cash and cash equivalents	**(72,396)**	(26,171)
Net debt	**(41,349)**	4,236
Total equity	**130,078**	78,853
Debt to equity ratio	**N/A**	5.4%

30. NON-ADJUSTING EVENTS AFTER THE REPORTING PREIOD

The directors believe global economy will be recovered from Covid-19 epidemic eventually amid the expectation of vaccine will be available for extensive distribution later in 2021. However, there were new Covid-19 cases lately. The Group will be cautious and stay vigilant and react to the evolving situation.