BAO SHEN HOLDINGS LIMITED
寶申控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8151

2021
ANNUAL REPORT

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CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Fan Baocheng
(Chairman and Chief Executive Officer)
Mr. Zhou Zhen Dong

Independent Non-executive Directors

Mr. Liang Chi
Mr. Ho Ka Chun
Mr. Chan Chun Chi

AUDIT COMMITTEE

Mr. Chan Chun Chi *(Chairman)*
Mr. Liang Chi
Mr. Ho Ka Chun

NOMINATION COMMITTEE

Mr. Liang Chi *(Chairman)*
Mr. Ho Ka Chun
Mr. Chan Chun Chi

REMUNERATION COMMITTEE

Mr. Ho Ka Chun *(Chairman)*
Mr. Liang Chi
Mr. Chan Chun Chi

COMPANY SECRETARY

Mr. Tsoi Ka Shing

COMPLIANCE OFFICER

Mr. Fan Baocheng

AUTHORISED REPRESENTATIVES

Mr. Fan Baocheng
Mr. Tsoi Ka Shing

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 719, Shuang Ying Road
Wu Yi Industrial Park
Nanqiao Suburb
Chuzhou City, Anhui, PRC

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

STOCK CODE

8151

COMPANY'S WEBSITE

www.baoshen.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a plastic and steel component processor for white goods of home washing machines and home refrigerators, which entails manufacturing of (i) stamping components; (ii) plastic components; (iii) processing of spray-painting; and (iv) powder-coating peripheral components, with headquarters in the Anhui province, the PRC.

In 2021, the world was still undergoing accelerated changes unseen in a century, with continued attack brought by the COVID-19 pandemic (the "**Pandemic**"). The PRC maintained its leading position in economic development as well as the Pandemic prevention and control worldwide. Benefiting from the unrelenting efforts of the staff, the Group can still rise to the challenge. During the year ended 31 December 2021, the Group's revenue increased by 13.3% to approximately RMB137.0 million (2020: RMB120.9 million), gross profit increased by 14.5% to approximately RMB22.9 million (2020: RMB20.0 million) and gross profit margin remained relatively stable at approximately 16.7% (2020: 16.5%). However, the Group recorded a loss position of approximately RMB3.7 million for the year ended 31 December 2021 primarily due to an increase in research and development expenses to maintain the Group's competitiveness.

OUTLOOK

Based on the previous production situation in 2021 and taking into account the current production pre-scheduled master plan for the Group's customers and the Group's operation and management measures, the Group's business outlook in 2022 are as follows:

(1) New customer and output value are expected to grow compared to 2021;

(2) In terms of cost and expense control, it is expected that the procurement cost of some common raw materials can be reduced. The Group also strives to integrate product processing procedures to enhance production capacity and reduce manufacturing costs;

(3) In terms of product quality and service, the Group plans to refine the work of customer site tracking service personnel, synchronise their work with customers, shorten time for response and connection, and provide quick confirmation and problem handling services to satisfy customers;

(4) In terms of professional skills and application of advanced management, we plan to engage external professional training institutions to conduct training on management experience, system standards, etc. so as to improve the overall quality of the enterprise and internal control capabilities. The Group plans to set up an enterprise automation technology improvement team. The Group will select the underlying production process from the stamping production line and implement the same, to form an automated production model for products, reduce labor, improve efficiency and establish an improvement mechanism, which will then be extended to all production departments of the Group, so as to achieve process cost reduction and strengthen the market competitiveness of the Group's products.

Finally, the Group will keep an open mind to explore new business opportunities applicable to the Group's development in order to achieve a diversified business base for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue was derived from four sources, namely, stamping components manufacturing, plastic components manufacturing, spray-painting peripheral components processing and powder-coating peripheral components processing which are analysed in note 5 to the consolidated financial statements. For the year ended 31 December 2021, the Group recorded an increase in total revenue by approximately 13.3% to approximately RMB137.0 million (2020: RMB120.9 million). Details of changes in the revenue are analysed as below.

Stamping components manufacturing

For stamping components manufacturing, the revenue increased by 1.6% from approximately RMB32.0 million for the year ended 31 December 2020 to approximately RMB32.5 million for the year ended 31 December 2021. The stamping components manufacturing mainly includes refrigerator's stamping components, the sales of these were relatively stable for the years ended 31 December 2021 and 2020.

Plastic components manufacturing

For plastic components manufacturing, the revenue increased by 47.8% from approximately RMB36.2 million for the year ended 31 December 2020 to approximately RMB53.5 million for the year ended 31 December 2021. Such increase was primarily due to increase in sale of the washing machine's plastic components to the largest customer of the Group.

Spray-painting peripheral components processing

For spray-painting peripheral components processing, the revenue decreased by 14.3% from approximately RMB16.1 million for the year ended 31 December 2020 to approximately RMB13.8 million for the year ended 31 December 2021. Such decrease was primarily due to generally decrease in sale of the washing machine's and refrigerator's spray-painting peripheral components of the Group.

Powder-coating peripheral components processing

For powder-coating peripheral components processing, the revenue increased by 1.9% from approximately RMB36.5 million for the year ended 31 December 2020 to approximately RMB37.2 million for the year ended 31 December 2021. The powder-coating peripheral components processing mainly includes refrigerator's powder-coating peripheral components, the sales of these were relatively stable for the years ended 31 December 2021 and 2020.

Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin for the years indicated:

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue	**136,981**	120,850
Cost of sales	**(114,045)**	(100,898)
Gross profit	**22,936**	19,952
Gross profit margin	**16.7%**	16.5%

The gross profit increased by approximately 14.5%, from approximately RMB20.0 million for the year ended 31 December 2020 to approximately RMB22.9 million for the year ended 31 December 2021, primarily due to increase in sale of the washing machine's plastic components to the largest customer of the Group. The gross profit margin remained relatively stable at 16.7% for the year ended 31 December 2021 and 16.5% for the year ended 31 December 2020.

Other income and gains

Other income and gains decreased by 25.0% from approximately RMB2.0 million for the year ended 31 December 2020 to approximately RMB1.5 million for the year ended 31 December 2021. Such decrease was mainly due to decrease in net sales of moulds and scrap compared to the year ended 31 December 2020.

Selling and distribution expenses

Selling and distribution expenses increased by 35.6% from approximately RMB4.5 million for the year ended 31 December 2020 to approximately RMB6.1 million for the year ended 31 December 2021. Such increase is primarily attributable to increase in sales and marketing's staff costs compared to the year ended 31 December 2020.

Administrative expenses

Administrative expenses increased by 21.9% from approximately RMB16.0 million for the year ended 31 December 2020 to approximately RMB19.5 million for the year ended 31 December 2021. Such increase is primarily attributable to increase in research and development costs compared to the year ended 31 December 2020.

Finance costs

Finance costs increased by 24.0% from approximately RMB2.5 million for the year ended 31 December 2020 to approximately RMB3.1 million for the year ended 31 December 2021. Such increase is primarily attributable to increase in interest on other borrowings.

Income tax credit/(expense)

Income tax credit for the year ended 31 December 2021 was approximately RMB0.6 million while income tax expenses for the same corresponding period in 2020 was approximately RMB0.1 million. The income tax credit incurred for the year ended 31 December 2021 was primarily attributable to over-provision of the PRC Enterprise Income Tax in prior years.

Loss for the year and attributable to owners of the Company

As a result of the foregoing, the Group recorded a loss of approximately RMB3.7 million for the year ended 31 December 2021 as compared to approximately RMB1.1 million for the year ended 31 December 2020. The loss for the year ended 31 December 2021 was mainly attributable to an increase in research and development costs recognised as an expense included in administrative expenses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group's current assets were approximately RMB109.7 million (2020: RMB118.4 million), of which approximately RMB35.6 million (2020: RMB34.2 million) were cash and bank balances. As at 31 December 2021, the consolidated net asset value of the Group amounted to approximately RMB77.6 million, representing a decrease of approximately 5.1% as compared to approximately RMB81.8 million at 31 December 2020. The gearing ratio (dividing debts comprising of bank borrowings, other borrowings and lease liabilities by total equity) of the Group was approximately 45.5% (2020: 45.7%). As at 31 December 2021, the share capital of the Company was approximately RMB3.4 million (2020: RMB3.4 million). The Group's consolidated reserves were approximately RMB74.2 million (31 December 2020: RMB78.4 million). As at 31 December 2021, the Group had total current liabilities of approximately RMB71.4 million (2020: RMB76.8 million), mainly comprising trade and other payables and bank borrowings. The total non-current liabilities of the Group amounted to approximately RMB2.7 million (31 December 2020: RMB6.1 million), which mainly represented other borrowings and deferred tax liabilities.

CAPITAL STRUCTURE OF THE GROUP

The capital structure of the Group consists of (i) debts, which include bank borrowings, other borrowings and lease liabilities; and (ii) equity reserves attributable to owners of the Company, comprising issued share capital and various reserves. All interest-bearing bank borrowings are repayable within one year. The other borrowings are repayable within five years. Both of them are denominated in RMB. The bank borrowings bear interest ranging from 3.65% to 6.00% (2020: at 6.0%) per annum. The other borrowings bear interest at 10.63% per annum (2020: ranging from 10.35% to 10.63% per annum). The Directors review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the management of the Company, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts. The Group's monetary assets, liabilities and transactions are mainly denominated in RMB. The Group was not engaged in any hedging by financial instruments in relation to exchange rate risk. The Group is closely monitoring the risk and will apply appropriate hedging instruments when it is needed.

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENTS

As at 31 December 2021 and 2020, the Group had no capital commitment in relation to the purchase of property, plant and equipment in the PRC which had been contracted but not provided for.

CHARGES ON ASSETS

The Group had pledged right-of-use assets and property, plant and equipment in the aggregate amount of approximately RMB29.4 million as at 31 December 2021 (2020: RMB23.9 million).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There were no significant investments held, material acquisitions or disposals of subsidiaries and affiliated companies by the Group during the year ended 31 December 2021. Save as those disclosed in this report, there was no plan for material investments or capital assets as at 31 December 2021.

FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICY

The majority of the Group's business operations were conducted in the PRC. The transactions, monetary assets and liabilities of the Group were mainly denominated in RMB. During the years ended 31 December 2021 and 2020, there were no material impact to the Group arising from the fluctuation in the foreign exchange rates. The Group did not engage in any derivatives agreement and did not commit to any financial instruments to hedge its foreign exchange exposure in both years. The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the years. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

USE OF PROCEEDS

The Group is to expand market share and strengthen market position in the steel and plastic component industry for white goods in the PRC.

Having currently reviewed the Group's expansion plans on the three components as well as the business and financial performances of the Group on these components, the management of the Group considered it prudent to slow down the pace for increasing their production capacity and to extend the period for the use of the proceeds on them for one year to 30 June 2023. The Board considered that the extension of time in applying the net proceeds on these three heads is in the interests of the Company and its Shareholders as a whole and will continue to monitor the use of the net proceeds in a cautious manner.

After deduction of all related listing expenses and commissions, the net proceeds from the listing of the shares of the Company amounted to approximately HK$18.4 million. Up to 31 December 2021, the Group has approximately utilised HK$10.3 million of the net proceeds from the date of listing as follows:

Use of proceeds	**As stated in Prospectus** HK$'000	**Actual use of proceeds from the date of listing up to 31 December 2021** HK$'000	**Unused amount** HK$'000	**Expected timeline of full utilisation of the remaining net proceeds**
Increasing production capacity of stamping components by acquisition of automatic roll manufacturing lines, stamping machines and the moulds required, and the related additional labour cost	4,100	2,893	1,207	By June 2023
Increasing production capacity of powder-coating peripheral components by acquisition of one new processing line and the related additional labour cost	4,200	–	4,200	By June 2023
Increasing production capacity of spray-painting components by acquisition of one new processing line and the related additional labour cost	2,700	–	2,700	By June 2023
Repayment of part of the Group's bank loans	6,700	6,700	–	N/A
Using for general working capital purposes	700	700	–	N/A
Total	18,400	10,293	8,107	

Any net proceeds that were not applied immediately have been placed in the short-term demand deposits with authorised financial institutions or licensed banks as at 31 December 2021.

SUBSEQUENT EVENTS

As at the date of this report, the Group has no material subsequent events after 31 December 2021 which are required to be disclosed.

DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2021, the Group had a total of 260 full time employees (2020: 291) in the PRC and Hong Kong. For the year ended 31 December 2021, total staff costs and related expenses of the Group (including the Directors' remuneration) were approximately RMB26.0 million (2020: RMB22.8 million). Employees' remuneration is determined with reference to market terms and the performance, qualifications and experience of employees. Apart from the statutory retirement benefits and medical benefits, the Group also provides trainings to employees to enhance their knowledge and maintain the quality of their services.

Pursuant to the applicable laws and regulations, the Group has participated in relevant defined contribution retirement schemes administrated by the responsible government authorities in the PRC for its employees in the PRC. For the Group's employees in Hong Kong, all the arrangements pursuant to the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) have been duly implemented.

As at 31 December 2021 and 2020, there were no forfeited contributions available to offset future employers' contributions to the schemes.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Fan Baocheng (樊寶成), aged 53, is the chairman of the Board, the chief executive officer, an executive Director, the compliance officer and one of the Controlling Shareholders. He was appointed as a Director on 14 December 2015 and was then re-designated as an executive Director on 14 September 2017. Mr. Fan is primarily responsible for major decision-making, formulating the Group's overall strategic plan and overseeing its overall business development and policy-setting.

Mr. Fan is also a director of each of the subsidiaries of the Company, namely Wealthy Square Developments Limited, Dragon Shiner Development Limited, and Chuzhou Xiezhong Home Appliance Accessories Co., Ltd.* (滁州市協眾家電配件有限公司).

Mr. Fan worked as a staff in China Yangzi Electric Refrigerator Factory* (中國揚子電氣公司電冰箱總廠) from June 1991 to July 1997. Mr. Fan was also an executive director and general of several companies during different time periods, namely, Chuzhou Ruidong Company Limited* (滁州市瑞東有限公司) from August 1997 to December 2008, Chuzhou Genxing Powder-Coating Co., Ltd* (滁州市亙興噴塑有限公司) from November 2005 to August 2007, Chuzhou Xingenxing Painting Equipment Company Limited* (滁州市新亙興塗裝設備有限公司) from March 2009 to April 2016. In addition, Mr. Fan has been the executive director and general manager of Jiangling Baocheng Technology Company Limited (江陵縣寶成科技有限公司) since June 2010.

Mr. Fan obtained a postgraduate degree in economic management and decision-making from Nanjing University in June 2006.

Mr. Zhou Zhen Dong (周振鶇), aged 32, is an executive Director since 14 September 2017 and is a Substantial Shareholder of the Group. He is responsible for major decision-making and overseeing its overall business development and policy-setting.

Mr. Zhou graduated from the Renmin University of China with a bachelor's degree in finance in June 2012. Prior to joining the Group on 18 August 2015, Mr. Zhou worked in First Seafront Fund Management Company Limited as a researcher from November 2013 to March 2014. From March 2014 to September 2014, he worked as a corporate finance analyst in Goetzpartners Business Consultants (Shanghai) Company Limited.

Mr. Zhou joined the Group on 18 August 2015 as a director of Chuzhou Xiezhong Home Appliance Accessories Co., Ltd.* (滁州市協眾家電配件有限公司). Mr. Zhou is also a director of each of the subsidiaries of the Company, namely Wealthy Square Developments Limited and Dragon Shiner Development Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liang Chi (梁赤), aged 63, was appointed as an independent non-executive Director on 31 March 2018. Mr. Liang is the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Group. He is responsible for supervising and providing independent judgement to the Board.

Mr. Liang graduated from the Sun Yat-Sen University with a bachelor's degree in law in July 1984 and is a registered lawyer of the PRC since 1989. He has been a lawyer in Guangdong Fangdian Law Firm* (廣東方典律師事務所) since February 2018. He previously worked in several law firms during different periods, including Guangdong Zhongzhen Law Firm* (廣東中圳律師事務所) from July 2000 to June 2010, Guangdong Shengfang Law Firm (廣東聖方律師事務所) from July 2011 to July 2012, Beijing Zhongtian (Shenzhen) Law Firm* (北京市眾天(深圳)律師事務所分所) from July 2012 to October 2013, Guangdong Fangdian Law Firm* (廣東方典律師事務所) from October 2013 to July 2016 and Guangdong Junyan Law Firm* (廣東君言律師事務所) from July 2016 to February 2018. He has been appointed as a visiting professor of the Guangdong Institute of Public Administration* (廣東行政職業學院) from March 2017 to March 2020. In addition, he has also been qualified as a real estate valuer in the PRC since 1995.

Mr. Liang acted as an independent director of Shenzhen Derun Electronics Co., Ltd. (深圳市得潤電子股份有限公司), a listed company on the Shenzhen Stock Exchange (stock code: 2055) from May 2010 to May 2014. He has also been appointed as an independent non-executive Director of Edensoft Holdings Limited (伊登軟件控股有限公司) (stock code: 1147) since April 2020, the issued shares of which are listed on the Main Board of the Stock Exchange in May 2020.

Mr. Ho Ka Chun (何家進), aged 41, was appointed as an independent non-executive Director on 31 March 2018. Mr. Ho is also the chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee of the Group. He is responsible for supervising and providing independent judgement to the Board.

Mr. Ho obtained a bachelor degree in business administration from the Chinese University of Hong Kong in December 2004 and is a fellow member of the Hong Kong Institute of Certified Public Accountants since August 2005. He was the chief financial officer of China Tontine Wines Group Limited (中國通天酒業集團有限公司), a listed company on the Stock Exchange (stock code: 389) from January 2016 to July 2018. Mr. Ho acted as an independent non-executive Director of Edensoft Holdings Limited (伊登軟件控股有限公司) (stock code: 1147) from April 2020 to May 2021, the issued shares of which are listed on the Main Board of the Stock Exchange in May 2020. Mr. Ho worked for the Hong Kong Office of Deloitte Touche Tohmatsu from 30 August 2004 to 31 December 2012 with his last position as manager and the Guangzhou Office of Deloitte Touche Tohmatsu from 1 January 2013 to 31 December 2015 with his last position as senior manager.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Chung Chi (陳駿志), aged 43, was appointed as an independent non-executive Director on 31 March 2018. Mr. Chan is also the chairman of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee of the Group. He is responsible for supervising and providing independent judgment to the Board.

Mr. Chan obtained a bachelor degree in accounting from the Hong Kong Polytechnic University in November 2004 and is a member of the Hong Kong Institute of Certified Public Accountants since February 2007. He was an independent non-executive Director of Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), from June 2011 to March 2015. Since August 2010, Mr. Chan has been serving as an accounting manager and senior accounting manager of Shanghai Industrial Urban Development Group Limited (上海實業城市開發集團有限公司) (formerly known as NEO-China Land Group (Holdings) Limited (中新地產集團(控股)有限公司)), a listed company on the Stock Exchange (stock code: 563). Prior to this, Mr. Chan worked at several accounting firms, namely, K.S. Li & Company from August 2004 to March 2005, T. K. Lo & Company from March 2005 to April 2006, C.W. Leung & Co. from April 2006 to August 2007, and CCIF CPA Limited from August 2007 to July 2010, and was responsible for, among other things, audit works, consultant services and tax related matters for clients.

SENIOR MANAGEMENT

Mr. Tsoi Ka Shing (蔡嘉誠), aged 40, was appointed as the chief financial officer and company secretary of the Company on 31 March 2018. Mr. Tsoi is mainly responsible for financial management and corporate governance and overall secretarial matters of the Group.

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

Mr. Tsoi has approximately 16 years of experience in accounting and financing. Mr. Tsoi joined the Group in March 2018 has been appointed as the chief financial officer and company secretary of the Company since March 2018. Mr. Tsoi has also been appointed as an independent non-executive Director of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (温嶺浙江工量刃具交易中心股份有限公司), a listed company on the Stock Exchange (stock code: 1379), since August 2018. Mr. Tsoi has acted as the company secretary of Edensoft Holdings Limited (伊登軟件控股有限公司), a listed company on the Stock Exchange (stock code: 1147), from April 2020 to April 2021. Prior to joining the Group, Mr. Tsoi worked in China Harvest Finance Group Limited as the chief financial officer and company secretary from 15 September 2014 to 31 December 2015. Mr. Tsoi also worked in Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), as the company secretary from June 2011 to September 2014 and financial controller from June 2011 to June 2014. Mr. Tsoi worked as the senior accountant and an assistant audit manager in SHINEWING (HK) CPA Limited from August 2009 to November 2010, a senior auditor in Deloitte Touche Tohmatsu from January 2008 to August 2009, an auditor in CCIF CPA Limited from February 2007 to January 2008, and an audit intermediate in Yau and Wong, CPA from July 2005 to January 2007.

COMPANY SECRETARY

Mr. Tsoi Ka Shing (蔡嘉誠) was appointed as the company secretary of the Company on 31 March 2018. He is responsible for the Group's overall company secretarial matters. Details of his qualifications and experience are set out in the paragraph headed "Senior Management" above.

* English translation name is for identification purpose only

REPORT OF THE DIRECTORS

The Directors are pleased to present this report of the Directors and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2021.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands and its headquarters and principal place of business is at No. 719, Shuang Ying Road, Wu Yi Industrial Park, Nanqiao Suburb, Chuzhou City, Anhui, PRC.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the business as a plastic and steel component processor for white goods which entails manufacturing of stamping components, plastic components and processing of spray-painting and powder-coating peripheral components. The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 29 to the consolidated financial statements of this annual report. There were no significant changes on the Group's principal activities during the year ended 31 December 2021.

BUSINESS REVIEW

A review of the Group's business, a discussion and analysis of the Group's performance for the year ended 31 December 2021 and an analysis of the prospects of the Group's business are set out in the section headed "Management Discussion and Analysis" on pages 4 to 10 of this annual report.

A description of the principal risks and uncertainties, environmental policies of the Group, compliance with the laws and regulations and key relationship with employees, customers, suppliers and others facing by the Group and have a significant impact are set out in this "Report of the Directors".

SEGMENTAL INFORMATION

Details of segment reporting are set out in note 5 to the consolidated financial statements.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2021 and the financial position of the Group as at 31 December 2021 are set out in the consolidated financial statements on pages 71 to 73 of this annual report.

The Board did not recommend the payment of final dividend for the year ended 31 December 2021 (2020: nil).

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years, as set out on page 132 of this annual report, are extracted from this annual report and the prospectus of the Company dated 9 April 2018 (the "**Prospectus**").

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial position, results of operations and business prospects may be affected by a number of risks and uncertainties directly and indirectly pertaining to the Group's business. The following are the key risks and uncertainties identified by the Group.

The Group relies heavily on the relationship with a customer

Revenue of the Group derived from a customer, which produces home appliance products, was approximately RMB30.0 million, RMB47.1 million and RMB57.6 million, for the years ended 31 December 2019, 2020 and 2021, respectively, representing approximately 33.7%, 38.9% and 42.0% of the total revenue for the same periods. The Group's business will be adversely affected if the sales of this customer drop significantly.

Concentration on the manufacturing and processing of components ultimately used in the home appliance products

During the three years ended 31 December 2019, 2020 and 2021, majority of the Group's products were subsequently applied for the production of home appliance products, in particular, home washing machines and home refrigerators. The demand of the Group's products relies on the development and sales of these home appliance products in the PRC, which may fluctuate over time. Should the demand for these products in the PRC fall as a result of adverse economic cycles and/or financial crisis or change in consumer buying behaviours, the demand for the Group's products may also fall, and in which case, the Group's business, operations and financial performance could be adversely affected.

Delays in collecting trade receivables from the customers

The Group generally offers credit periods ranging from 60 days to 180 days to the customers on case-by-case basis, with consideration of the reputation of the customers and the historical business relationship with them.

The Group performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. The Group also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. For the year ended 31 December 2021, the Group provided expected credit loss on trade receivables of approximately RMB1.7 million (2020: RMB1.7 million).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the Group's largest and the five largest customers represented approximately 42.0% and approximately 90.7% respectively of the Group's total revenue.

For the year ended 31 December 2021, the Group's largest and the five largest suppliers accounted for approximately 16.6% and approximately 47.8% respectively of the Group's total purchases.

None of the Directors nor any of their associates (as defined under the GEM Listing Rules) nor any Shareholders (which, to the best knowledge of the Directors, own more than 5.0% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers.

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHERS THAT HAVE A SIGNIFICANT IMPACT

The Group is committed to establish and maintain long term and harmonious relationships with its employees, customers and suppliers. The Group provides a pleasant and healthy working environment to employees. During the year ended 31 December 2021, the Group organised various activities to promote friendship, bonding and healthiness of employees. In addition, instead of mass communication, employees of the Group communicate with the customers and suppliers on an ongoing and promptly basis through email, telephone or face-to-face meeting. The Group was able to retain its customers and suppliers during the year ended 31 December 2021 and no complaints were received.

ENVIRONMENTAL PROTECTION

The Group recognises its responsibility to protect the environment from its business activities. The Group has endeavoured to comply with the laws and regulations regarding environmental protection and encourages environmental protection and promotes awareness towards environmental protections among our staff and employees.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 December 2021.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2021 are set out in note 14 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2021 are set out in note 24 to the consolidated financial statements.

DEBENTURES

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2021 are set out in the consolidated statement of changes in equity and in note 34 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2021, the Company's reserve available for distribution to the Shareholders are approximately RMB37.6 million (2020: RMB40.0 million) as calculated in accordance with statutory provisions applicable in the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were no purchase, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries for the year ended 31 December 2021.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

EQUITY-LINKED AGREEMENTS

Save and except for the scheme as disclosed in the paragraph headed "Share Option Scheme", no equity-linked agreements that (i) will or may result in the Company issuing shares or (ii) require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2021 or subsisted at the end of the year ended 31 December 2021.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

During the year ended 31 December 2021, there was no material acquisition, disposal or investment by the Group.

SHARE OPTION SCHEME

A share option scheme (the "**Share Option Scheme**") was adopted by the shareholders of the Company on 31 March 2018 for the purpose of attracting and retaining the best available personnel, to provide additional incentive to employees (full-time and part-time), Directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or services providers of the Group and to promote the success of the business of the Group. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules and are summarised below:

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10.0% of the Shares in issue at any point in time, without prior approval from the Shareholders. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1.0% of the Shares in issue at any point in time, without prior approval from the Shareholders. Options granted to substantial Shareholders or independent non-executive Directors or any of their respective associates (including a discretionary trust whose discretionary objects include substantial Shareholders, independent non-executive Directors or any of their respective associates) in any 12-month period in excess of 0.1% of the Company's share capital or with a value in excess of HK$5.0 million must be approved in advance by the Shareholders. Options granted must be taken up within seven days inclusive of the day on which such offer was made, upon payment of HK$1.0 per option. Options may be exercised at any time during a period as the Directors may determine which shall not exceed ten years from the date of grant. The exercise price is determined by the Directors, and will be at least the higher of (i) the closing price of the Shares on the date of grant, (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Share. The Share Option Scheme will remain in force for a period of ten years commencing on the date of the adoption date (i.e. 31 March 2018) and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting. There is no option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2021.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The principal corporate governance practices as adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 51 to 65 of this annual report.

DISCLOSURES UNDER RULES 17.22 TO 17.24 OF THE GEM LISTING RULES

As at 31 December 2021, the Group had no circumstances which would give rise to a disclosure obligation under Rules 17.22 to Rule 17.24 of the GEM Listing Rules.

DIRECTORS AND THEIR SERVICE CONTRACTS

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

Executive Directors
Mr. Fan Baocheng *(Chairman and Chief Executive Officer)*
Mr. Zhou Zhen Dong

Independent non-executive Directors
Mr. Liang Chi
Mr. Ho Ka Chun
Mr. Chan Chun Chi

The biographical details of the Directors are set out on pages 11 to 13 of this annual report.

Each of the Directors has entered into a service contract or an appointment letter ("**Directors' Service Contract**") with the Company for an initial fixed term of three years or up to the annual general meeting which is subject to termination by either party giving not less than one month's written notice.

In accordance with Article 108 of the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but 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.

At the forthcoming annual general meeting of the Company (the "**2022 AGM**"), all the Directors will retire from office as Director by rotation and, being eligible, will offer themselves for re-election at the 2022 AGM.

Other than disclosed above, no Director proposed for re-election at the forthcoming AGM has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to the GEM Listing Rules. The Company considers the independent non-executive Directors to be independent pursuant to Rule 5.09 of the GEM Listing Rules.

CONTROLLING SHAREHOLDERS' INTEREST

Save as disclosed in this annual report, no contracts of significance were entered into between the Company or any of its subsidiaries and any Controlling Shareholders or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by any Controlling Shareholders or any of its subsidiaries.

EMOLUMENT POLICY

The emolument policy of the Group is on the basis of the qualifications and contributions of individuals to the Group. The Company has adopted the Share Option Scheme as an incentive to eligible participants, details of which are set out in the paragraph headed "Share Option Scheme".

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group.

Details of the emoluments of the Directors and five highest paid individuals are set out in note 10 and note 11 to the consolidated financial statements respectively.

Details of the retirement benefit plans are set out in note 26 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 191 of the Company's Articles of Association, every Director, Secretary and other officers of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against any actions, cost, charges, losses, damages and expenses, as a result of any act done, concurred in or omitted in or about the execution of their duty. The Company has also maintained the Directors and officers liability insurance during the year.

COMPETING INTERESTS

During the year ended 31 December 2021, none of the Directors, the Controlling Shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business during the year ended 31 December 2021 and up to the date of this annual report.

NON-COMPETITION UNDERTAKING

Mr. Fan Baocheng and Wang Mao Investments Limited (each a "**Covenantor**", collectively, "**Covenantors**") entered into a deed of non-competition dated 31 March 2018 in favour of the Company and its subsidiaries (the "**Deed of Non-competition**").

Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for the benefit of the Company's subsidiaries) that, save and except as disclosed in the Prospectus, so far as the Deed of Non-competition continues to remain effective, he/it shall not, and shall procure that his/its close associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group within Hong Kong and such other parts of the world where any member of the Group may operate from time to time, or any business activity to be conducted by any member of the Group from time to time after the date of listing, save for the holding of not more than 5.0% shareholding interests (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Covenanter (individually or with his/its close associates). Each of the Covenantors further undertakes that if he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it shall procure that his/its close associates to promptly notify the Group in writing and the Group shall have a right of first refusal to take up such opportunity. The independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by the Covenantors, and be responsible for deciding whether or not to allow any of the Covenantors and/or his/its close associates to involve or participate in any business in competition with or likely to be in competition with the existing business activity of any member of the Group within Hong Kong and such other parts of the world where any member of the Group may operate from time to time and if so, any condition to be imposed. The Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of the Covenantors in the annual report of the Company.

A summary of the major terms of the Deed of Non-competition was disclosed in the section headed "Relationship with Controlling Shareholders" of the Prospectus.

The Company confirms that each of the Covenantors has complied with the Deed of Non-competition during the year ended 31 December 2021 and up to the date of this annual report. In order to ensure that the Covenantors have complied with the Deed of Non-competition, each of the Covenantors has provided to the Company four written confirmations that (i) he/it has provided information as may be necessary for the annual review by the independent non-executive Directors in respect of the Deed of Non-competition; and (ii) he/it has complied with the non-competition undertaking under the Deed of Non-competition for the respective periods from 1 January 2021 to 31 March 2021, 1 April 2021 to 30 June 2021, 1 July 2021 to 30 September 2021, 1 October 2021 to 31 December 2021.

The independent non-executive Directors have reviewed the status of the compliance by each of the Covenantors with the undertakings in the Deed of Non-competition and evaluated the effectiveness of the implementation of the Deed of Non-competition and were satisfied that, as far as they can ascertain, there is no breach by any of the Covenantors of the undertakings in the Deed of Non-competition given by them.

As of the date of this annual report, the Company is not aware of any other matters regarding the compliance of the undertakings in the Deed of Non-competition and there have not been any changes in terms of the Deed of Non-competition since the date of listing of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group are set out in note 31 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the GEM Listing Rules are set out in the paragraph headed "Connected Transactions/Continuing Connected Transactions" below. These continuing connected transactions have complied with the requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS/CONTINUING CONNECTED TRANSACTIONS

One-off Connected Transactions

During the year ended 31 December 2021, the Group had not entered into any non-exempted one-off connected transactions which were subject to the reporting, annual review, announcement and/or independent shareholders' approval requirements under the GEM Listing Rules.

Continuing Connected Transactions

For the year ended 31 December 2021, the Group has the following continuing connected transaction with a connected person which is fully exempted from independent shareholders' approval, annual review and all disclosure requirements of Chapter 20 of the GEM Listing Rules.

FINANCIAL ASSISTANCE FROM CONTROLLING SHAREHOLDER

For the year ended 31 December 2021, the Group has the following financial assistance from controlling shareholder which are constituted disclosable transaction of the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to notification and announcement requirements under Chapter 19 of the GEM Listing Rules. Given that Mr. Fan and Ms. Cao are associates to Chuzhou Xiezhong, the entering into the letters of warranty for the benefit of Chuzhou Xiezhong amount to financial assistance by Mr. Fan and Ms. Cao for the benefit of the Group. As such financial assistance is provided on normal commercial terms or better to the Group and is not secured by the assets of the Group, the letters of warranty are considered as exempt connected transactions pursuant to GEM Listing Rules 20.88, which are fully exempted from the reporting, announcement and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

i) On 15 April 2020 (after trading hours), Chuzhou Xiezhong and Ping An International Finance Lease Company Limited* (平安國際融資租賃有限公司) ("**Ping An**") (as purchaser and lessor) entered into the sale and leaseback agreement, pursuant to which Chuzhou Xiezhong agreed to sell the machineries to Ping An at an aggregate sale consideration of RMB2,400,000 and Ping An agreed to leaseback the machineries to Chuzhou Xiezhong for 24 months and for a total amount of rent of RMB2,544,000 and service fee of RMB80,000. On the same day, the letter of warranty was executed by Mr. Fan and Ms. Cao Lele (spouse of Mr. Fan) in favour of Ping An to secure the performance obligations (including, among others, payment obligations) of Chuzhou Xiezhong under the sale and leaseback agreement. For details, please refer to the announcement dated 15 April 2020.

ii) On 29 October 2020 (after trading hours), Chuzhou Xiezhong (as vendor and lessee) and Zhongli International Finance Lease Company Limited* (仲利國際租賃有限公司) ("**Zhongli**") (as purchaser and lessor) entered into (i) the sale and purchase agreement; and (ii) the finance lease agreement, pursuant to them, Zhongli shall purchase the machineries from Chuzhou Xiezhong for a total purchase consideration of RMB6,500,000 and shall then be leased back to Chuzhou Xiezhong for 42 months at a total lease payment of RMB7,466,000. Chuzhou Xiezhong is required to pay a service fee of RMB227,500 and a value-added tax of RMB57,960 to Zhongli on signing the finance lease agreement. Further, in addition to a security deposit of RMB1,300,000 to be retained by Zhongli for securing the due performance of Chuzhou Xiezhong under the finance lease arrangement, the letters of warranty were given by Mr. Fan and Ms. Cao in favour of Zhongli on the same date. For details, please refer to the announcement dated 29 October 2020.

Furthermore, the Group has the following financial assistance from controlling shareholder which is fully exempted from independent shareholders' approval, annual review and all disclosure requirements of Chapter 20 of the GEM Listing Rules.

Detail of the bank borrowing is set out as follows:

	Period of loan	Principal amount RMB'000	Interest rate per annum %	Principal use of loan	Guarantor
1	27 January 2021 – 27 January 2022	3,000	3.65	Purchase of materials	Mr. Fan and a corporate guarantee given by an independent third party
2	11 October 2021 – 13 January 2022	2,000	4.00	General working capital	Mr. Fan

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the bank is independent third party and not connected with the Group and its connected persons (as defined under the GEM Listing Rules) as at the date of this report. Save for Mr. Fan, none of the connected persons have any interest, whether directly or indirectly, in the bank borrowing agreements.

Mr. Fan has not and will not receive any form of consideration from the Group for the provision of the personal guarantee.

Furthermore, Chuzhou Xiezhong as lessee has entered into the lease agreement with Ping An as lessor in relation to plant and machinery situated at Chuzhou City, Anhui Province, the PRC.

Detail of the lease agreement is set out as follows:

	Date of lease agreement	Lessee	Lessor	Location of the plant and machinery	Price of the plant and machinery	Rental team	Initial rent	Monthly rent	Option to purchase	Guarantor
i)	10 January 2020	Chuzhou Xiezhong	Ping An	No. 719, Shuang Ying Road, Wu Yi Industrial Park, Nanqiao Suburb, Chuzhou City, Anhui, PRC	RMB480,000 (including VAT)	24 months commencing from 10 January 2020 to 9 January 2022	RMB96,000	RMB22,900 from the 1st to 7th months, RMB17,700 from the 8th to 15th months, RMB12,500 from the 16th to 22th months, RMB12,400 at 23th month, and RMB100 at 24th month	RMB100	Mr. Fan and Ms. Cao
ii)	26 April 2020	Chuzhou Xiezhong	Ping An	No. 719, Shuang Ying Road, Wu Yi Industrial Park, Nanqiao Suburb, Chuzhou City, Anhui, PRC	RMB1,110,0000 (including VAT)	24 months commencing from 26 April 2020 to 25 April 2022	RMB92,000	RMB19,600 at the 1st month, RMB55,600 from the 2nd to 8th months, RMB46,200 from the 9th to 16th months, RMB37,500 from the 17th to 24th months	RMB100	Mr. Fan and Ms. Cao
iii)	24 July 2020	Chuzhou Xiezhong	Ping An	No. 719, Shuang Ying Road, Wu Yi Industrial Park, Nanqiao Suburb, Chuzhou City, Anhui, PRC	RMB1,110,0000 (including VAT)	24 months commencing from 24 July 2020 to 23 July 2022	RMB92,000	RMB19,600 at the 1st month, RMB55,600 from the 2nd to 8th months, RMB46,200 from the 9th to 16th months, RMB37,500 from the 17th to 24th months	RMB100	Mr. Fan and Ms. Cao

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Ping An and Zhongli are independent third parties and not connected with the Group and its connected persons (as defined under the GEM Listing Rules) as at the date of this report. Save for Mr. Fan and Ms. Cao, none of the connected persons have any interest, whether directly or indirectly, in the lease agreements.

Mr. Fan and Ms. Cao have not and will not receive any form of consideration from the Group for the provision of the personal guarantee.

As Mr. Fan is a Director and controlling shareholder of the Company, the provision of the personal guarantee constitutes a connected transaction in the form of financial assistance in favour of the Group. However, as the personal guarantee is not secured by any assets of the Group, and as the Directors consider that the personal guarantee is on normal commercial terms or better, the personal guarantee is fully-exempted from the shareholders' approval, annual review and all disclosure requirements pursuant to Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties (as defined under the GEM Listing Rules); and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2021, the interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executive of the Company (the "**Chief Executives**") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long position in the ordinary shares of HK$0.01 each of the Company

Name of Directors	Capacity/ Nature of interests	Number of Shares interested in	Percentage of shareholdings
Mr. Fan Baocheng (Note 1)	Interest in a controlled corporation	223,650,000	53.25%
Mr. Zhou Zhen Dong (Note 2)	Interest in a controlled corporation	91,350,000	21.75%

Notes:

1. Mr. Fan Baocheng beneficially owns the entire issued share capital of Wang Mao Investments Limited. Therefore, Mr. Fan Baocheng is deemed, or taken to be, interested in all the Shares held by Wang Mao Investments Limited for the purposes of the SFO.

2. Mr. Zhou Zhen Dong beneficially owns the entire issued share capital of Season Empire Group Limited. Therefore, Mr. Zhou Zhen Dong is deemed, or taken to be, interested in all the Shares held by Season Empire Group Limited for the purposes of the SFO.

Long position in the ordinary shares of associated corporations

Name of Directors	Name of associated corporation	Capacity/ Nature of interests	Number of Shares held/ interested in	Percentage of interest in the associated corporation
Mr. Fan Baocheng	Wang Mao Investments Limited	Beneficial owner	1	100%
Mr. Zhou Zhen Dong	Season Empire Group Limited	Beneficial owner	1	100%

Save as disclosed above, as at 31 December 2021, none of the Directors or Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under provisions of the SFO), or pursuant to section 352 of the SFO, which would have to be recorded in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, which would have to be notified to the Company and the Stock Exchange.

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

So far as the Directors and the Chief Executives are aware, as at 31 December 2021, other than the Directors and Chief Executives, the following persons had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under section 336 of the SFO, or which would be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Name	Capacity/Nature of interests	Number of Shares held/ interested in	Percentage of shareholdings
Wang Mao Investments Limited	Beneficial owner	223,650,000	53.25%
Ms. Cao Lele (Note 1)	Interest of spouse	223,650,000	53.25%
Season Empire Group Limited	Beneficial owner	91,350,000	21.75%

Note:

1. Ms. Cao Lele is the spouse of Mr. Fan Baocheng. For the purposes of the SFO, Ms. Cao Lele is deemed or taken to be interested in all the Shares of the Company in which Mr. Fan Baocheng has, or is deemed to have, an interest for the purposes of the SFO.

Save as disclosed above, as at 31 December 2021, the Directors were not aware of any person or corporation (other than the Directors and the Chief Executives) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or pursuant to section 336 of the SFO, which would have to be recorded in the register referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraphs headed "Interests and Short Positions of the Directors and Chief Executives of the Company in the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations" and the "Share Option Scheme" in this report, at no time during the year ended 31 December 2021 and as at the end of the year ended 31 December 2021 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and Chief Executives (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporation.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for those disclosed under the section headed "Connected Transactions/Continuing Connected Transactions" above and those disclosed in note 31 to the consolidated financial statements, during the year ended 31 December 2021, there was no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of that Director has or had, directly or indirectly, a material interest.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Group's business were entered into or existed during the year ended 31 December 2021.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that at least 25.0% of the Company's issued Shares were held by the public (i.e. the prescribed public float applicable to the Company under the GEM Listing Rules) for the year ended 31 December 2021 and up to the date of this annual report.

DONATION

During the year ended 31 December 2021, the Group had not made any charitable and other donation (2020: nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining entitlement to attend and vote at the annual general meeting of the Company ("**2022 AGM**"), the register of members of the Company will be closed from Wednesday, 22 June 2022 to Monday, 27 June 2022, both days inclusive, during which period, no transfer of Shares will be registered. In order to qualify for attending and voting at the 2022 AGM, all transfer of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 21 June 2022.

ANNUAL GENERAL MEETING

The 2022 AGM will be held on Monday, 27 June 2022. A formal notice convening the meeting will be published and despatched to the shareholders of the Company in due course.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by HLB Hodgson Impey Cheng Limited, the independent auditors of the Company, who shall retire and, being eligible, offer itself for the re-appointment at the 2022 AGM.

The Company did not change its auditors in the preceding 3 years.

On behalf of the Board

Fan Baocheng
Chairman and Chief Executive Officer
Chuzhou City, the PRC, 25 March 2022

* English translation name is for identification purpose only

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Bao Shen Holdings Limited (the "**Company**" together with its subsidiaries, collectively, "**we**", "**us**", "**our**" or the "**Group**") is pleased to present our annual Environmental, Social and Governance Report (the "**Report**") for the year ended 31 December 2021. This Report details the sustainable development policy implemented by the Group during the period from 1 January 2021 to 31 December 2021 (the "**Reporting Period**") and its performance on environmental and social works. Unless otherwise stated, this ESG report contains the achievements made by Bao Shen Holdings Limited in environmental protection and social development field.

The Group regards sustainable development of its business as top priority of its long-term development goals, and incorporates climate-related issues and environmental, social and governance ("**ESG**") elements into its long-term business strategic planning. As the Group's key leadership role, the Board of Directors (the "**Board**") is solely responsible for the direct supervision, management and monitoring of the Group's environmental, social and governance issues and progresses.

We believe that sustainable development can bring continuous and positive impact on enterprises and other shareholders. Therefore, the Company gives high value to social responsibilities and has always pursued an operating approach that is mutually beneficial to both the Company and the society. We spare no effort in sustainable development to make contribution to environmental protection and social development.

The Group has formulated short-term and long-term sustainable development visions and goals to gradually achieve sustainable emission reductions. We have formulated relevant emission reduction targets and corresponding strategies, and incorporated sustainable development factors into the Group's strategic planning, business model and other decision-making processes. The Board regularly monitors and reviews the effectiveness of the management approach, including reviewing the Group's environmental, social and governance performance and fine tuning the corresponding action plan.

SUSTAINABLE DEVELOPMENT POLICY

In the course of preparing the Report, the Group has conducted thorough review and assessment towards its existing environmental and social policies. Our Group looks forward to making further progress in the field of environment, society, corporate governance as well as management and operation and to contributing more to the community in which it operates.

In order to achieve sustainable development, the Group has adopted following strategies:

1. achieving environmental sustainability;

2. respecting human rights and community culture;

3. maintaining communications with stakeholders;

4. supporting employees and providing a friendly working environment;

5. stringent Quality Control;

6. sustaining local community development; and

7. strengthening our commitment to customers.

REPORTING SCOPE, BASIS AND LIMITATION OF THE ESG REPORT

This Report covers all subsidiaries of the Group in the People's Republic of China (the "**PRC**") with core business that principally engaged in the (i) stamping components manufacturing; (ii) plastic components manufacturing; (iii) spray-painting components processing; and (iv) powder-coating components processing in the PRC.

In accordance with the disclosures requirements under the "comply or explain" provisions of Appendix 20 "Environmental, Social and Governance Reporting ("**ESG**") Guide" of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited, this Report covers the overall initiative and performance of the Group in environmental, social and governance aspects. In view of our disclosure of certain key performance indicators ("**KPIs**"), which is considered as material by the Group, during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs.

During its preparation, the Group adheres to the reporting principles of materiality, quantitative, balance and consistency by:

Reporting Principles	Interpretation	The Group's Application
Materiality	– The report should disclose significant impacts on the environment and society, or aspects that materially affect how the stakeholders assess the Company and make decisions.	– The Group conducts questionnaires to understand stakeholders' expectations. Based on the results of the questionnaire, the Group identifies and reports the Group's material sustainability issues.
Quantitative	– The KPIs disclosed in the report shall be calculable and comparable where applicable.	– Under feasible situation, the Group records, calculates and discloses quantitative information and conducts comparisons with past performance.
Balance	– The Group should objectively and truthfully report its ESG performance for the year.	– The Group follows the principles of accuracy, objectivity and fairness to report its achievements and challenges in sustainable development.
Consistency	– The ESG report should be prepared in a consistent manner, its ESG's KPIs can be compared to understand corporate performance.	– The Group ensures consistency in preparing the report and manage its ESG data for future comparison.

CORPORATE GOVERNANCE OF THE ESG REPORT

The Group has established an Environmental Health and Safety Working Group (the "**Working Group**"), which consists of the Executive Director, General Manager, Deputy Production Manager and Administration Manager, and is responsible for formulating the Group's Environmental Health and Safety Policy. The Group's Environmental Health and Safety Team would then be responsible for the detailed implementation, and report in written format to the Working Group and the Company's board of directors on a semi-annual basis for review and follow-up. The Board of Directors will conduct inspections routinely every year, or hold meetings to discuss and evaluate the Company's performance on environmental, social and governance aspects.

The Group regards environmental, social and governance objectives as corporate responsibility. The Environmental Health and Safety Team and the Board of Directors supervise at every level, and are committed to monitoring the protection of the environment and resources. At the same time, the Company increases communication with stakeholders to understand their concerns and needs, so as to foster a friendlier working environment and community.

RISK MANAGEMENT OF THE ESG REPORT

Good governance includes the Board and committee's oversight of a wide range of risks. The Group has implemented the "Risk Management Policies and Procedures" and established a Risk Management Committee to identify, assess and manage the Group's risks. According to industry characteristics, we combine the latest laws and regulations and industry trends with the Group's own conditions and strategic objectives so as to identify ESG risks and their respective levels.

Based on the results, we have identified and assessed corresponding ESG and climate change risks, including but not limited to factors such as business ethics, corruption, energy, health and safety, which may affect the Group's business strategy and stakeholders.

Approval of the Report

The report was approved by the Group's Board of Directors on 25 March 2022.

MATERIALITY ASSESSMENT

The Group has adopted the principle of materiality in ESG reporting by understanding the key ESG issues which are important to the business of the Group. In the Reporting Period, the Company undertook its annual materiality assessment exercise. The objective of the materiality assessment is to identify ESG topics that are material and relevant to the Group's operation. This involved distributing questionnaires to internal and external stakeholders to identify the most significant environmental and social impacts on its business. To identify potential material topics for disclosure in the ESG Report, we took reference to the ESG Guide and set possible topics for assessment.

According to the results of the materiality assessment, the items below demonstrated the ESG topics with high materiality to the Group, including:

- Emissions
- Use of resources
- The Environment and Natural Resources
- Climate change
- Employment
- Occupational Health and Safety
- Development and training
- Labour standard
- Supply chain management
- Product liability
- Anti-corruption
- Community investments

The Group highly values the importance of making appropriate disclosure of corporate information to all investors and shareholders and believes that high level of transparency is the key to building confidence with the investors. Therefore, in this Report, the Group shall highlight the sustainable achievements in the above areas so as to give the stakeholders a better understanding of what the Group has done to protect the environment and promote social harmony.

For details about corporate governance, please refer to the "Corporate Governance Report" set out in pages 51 to 65 of the annual report.

ENVIRONMENTAL

Overview

The Group is a plastic and steel component processors for white goods, primarily engaging in spray-painting, powdercoating and baking enamel for steel components and spray-painting and UV-coating for plastic components and stamping of stamping components. We understand that reducing pollutant emissions and resources consumption and cutting carbon footprint are the responsibility of all enterprises. Therefore, we integrate sustainable development with our daily operation and implement various measures to mitigate the adverse effects on the environment caused by our production. We have obtained ISO 14001:2015 environmental management system certification during the Reporting Period.

For this purpose, we have identified the following directional goals to reduce consumption of resources:

Goals

– Reducing exhaust gas, greenhouse gas and waste water emissions

– Reducing consumption of resources

– Reducing production of hazardous and non-hazardous waste

The Group's manufacturing and processing operations are subject to PRC environmental laws and regulations on air emission, solid waste emission, sewage and waste water, discharge of waste and pollutants, and noise pollution. During the Reporting Period, the Group has complied with all relevant laws and regulations which have significant impact on us. Such laws and regulations include but are not limited to Law of the PRC on Environmental Protection (中華人民共和國環境保護法), Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the PRC on the Prevention and Control of Atmospheric Pollution (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) and Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste (中華人民共和國固體廢物污染環境防治法), the Regulations on Environmental Protection Management of Construction Projects (建設項目環境保護管理條例) and Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法). During the Reporting Period, there were no confirmed noncompliance incidents in relation to environmental protection that have a significant impact on the Group.

Emissions

Emissions such as air pollutants and greenhouse gases ("**GHG**") of the Group during the Reporting Period are mainly sourced from consumption of (1) natural gas for producing heating equipment, such as spraying and painting workshop, drying tunnel heating and drying and heating sprayed product; (2) petrol and diesel for vehicles; (3) electricity for machines; and (4) production of waste water.

The Group has the following management measures to reduce environmental pollution caused by exhaust gas and greenhouse gas emissions:

- Effective control of exhaust gas and greenhouse gas emissions from production, office, transportation and other activities related to company operations.

- Ensure and monitor the exhaust gas emissions including styrene, pentane, xylene, particulate matter and other air pollutants are regulated by national laws and regulations.

- Greenhouse gas mainly includes carbon dioxide, methane, hydrofluorocarbons and perfluorocarbons emitted by generators, vehicles, refrigeration and air-conditioning equipment. In the future, appropriate planting of trees and increased greening will be considered, so as to effectively absorb and transform greenhouse gases.

- Calculated per 100,000 pieces of production (spray-painting peripheral component, powder-coating peripheral component and plastic component), the Company targeted and achieved during the Reporting Period to control greenhouse gas emissions within 0.2 ton.

To reduce environmental pollution caused by production of waste water, the Group has the following management measures:

- Per 100,000 pieces of output (spray-painting peripheral component and powder-coating peripheral component), the Company targeted and achieved during the Reporting Period to limit the discharge of waste water within 1.3 tons.

- Ensure that production wastewater is purified through a wastewater treatment system. The quality control department regularly monitors the waste water, and the sewage treatment service provider takes samples from time to time. Only after reaching certain standard, the waste water could be discharged by the Company.

In order to meet the requirement of local environmental protection bureau, the Group has prepared and submitted environmental impact assessment documents for existing production machines, and all machines have been checked and accepted and be equipped with environmental protection supporting facilities. In addition, the Group prepared equipment overhaul schedule annually. The department in charge will conduct regular overhaul and maintenance for all production machines. This is how we can improve machine efficiency, save energy and reduce emission.

As of 31 December 2021, the Group had 8 vehicles (2020: 10 vehicles), including heavy duty warehouse truck used for transportation and small passenger car, with a total driving distance of 242,739 km (2020: 323,911 km), while the fuel used amounted to 25,143 liters (2020: 34,445 liters). Natural gas consumption during the Reporting Period and the corresponding period in 2020 are around 260,000 m^3 and 190,000 m^3, respectively.

In light of the nature of the business of the Group, the vehicles are mainly used to transport goods. Drivers will record the fuel consumption and total driving distance to monitor vehicle usage. In addition, in order to keep the vehicle at optimum status, we will conduct regular maintenance on vehicles, so as to improve fuel consumption efficiency, ensure road safety and minimize the emission of various air pollutants.

Major air pollutant emissions from the operation during the Reporting Period and the corresponding period in 2020 are as follows:

Air Pollutant Emissions

Type of Air Pollutants	Air Pollutant Emissions (kg) 2021	Air Pollutant Emissions (kg) 2020
Sulphur Dioxide	**178.76**	130.86
Nitrogen Oxides	**1,173.76**	1,607.69
Particulate Matter	**36.72**	75.24

The GHG emissions from the operation during the Reporting Period and the corresponding period in 2020 are set out below:

GHG Emission

Type of GHG emissions	Equivalent CO_2 emission (ton) 2021	Equivalent CO_2 emission (ton) 2020
Scope 1: Direct emissions	**66.64**	91.20
Scope 2: Indirect emissions	**2,322.07**	2,940.80
Total	**2,388.71**	3,032.00
Intensity (ton/m^2)	**0.038**	0.049

Note 1: The calculation of the GHG gas is based on the "A Corporate Accounting and Reporting Standard" from The GHG Protocol.

Scope 1: Direct emissions from vehicles that are owned by the Group.

Scope 2: Indirect emissions from the generation of purchased electricity and natural gas consumed by the Group.

USE OF RESOURCES

The Group has always been promoting sustainability by assuming the social responsibility of environmental protection in the course of business and, on the premise of minimizing the impact on the environment, creating unlimited possibilities with limited resources. In this regard, the Group attaches great importance to employees' environmental awareness, thus has put forth a number of initiatives with the goal of "green factory", educating employees about how to fully utilize the resources and save energy. The Group aims at maximizing the efficiency of our resources in commercial aspect while eliminating waste in social aspect and minimizing environmental impact of our operation.

To reasonably control the use of resources, the Group has the following directional goals and management measures:

- Aiming at efficient use of resources and reduction of energy consumption.

- According to the types of energy and resources used, including water, electricity, other energy sources and packaging materials used for production, storage, transportation, etc., relevant performance indicators are formulated. Relevant departments will collect actual data on a monthly basis and formulate Resources Consumption Statistics.

Water consumption

The Group's water consumption mainly generates from production process and daily use of employees. During the Reporting Period, the water used by the Group amounted to 14,230 m^3 (2020: 13,530 m^3) and its intensity[1] was 0.23 m^3/m^2 (2020: 0.22 m^3/m^2). The existing supply of water meets our daily operational needs for the purpose of domestic use and we do not have any issue in sourcing water. For the sake of saving water and reducing the pollution of waste water to the surroundings, the Group has the following management measures to educate employees on acquiring the habit of water conservation:

- Performing regular inspections, repairs, and maintenance of water equipment to avoid unnecessary leakage and water seepage problems in water equipment;

- The principle of "On when in use, off when not in use" is required for water usage in toilets and bathrooms;

- Posting promotional posters and cards in prominent areas of the workplace to remind employees of saving water; and

- The fire hydrants and pools used for fire safety are supplied with water all year round according to the fire services regulations. Meanwhile, the water level is regularly kept not too high and the water pressure is not excessive, so as to avoid water wastage arising from water overflow, which is caused by the damage of fire hoses due to excessive water pressure.

Moreover, in order to comply with Water Pollution Prevention and Control Law of the PRC (中華人民共和國水污染防治法), the Group formulates a set of waste water treatment methods, aiming to effectively control the waste water generated during the course of production. In the process of manufacturing and processing, all components should be cleansed with water before further processing. The waste water generated in this process should not be discharged into Nanqiao sewage treatment plant for centralized treatment unless it meets relevant standards and requirement imposed by local government.

Electricity consumption

The Group is committed to acting in an environmentally responsible manner through its office management and daily operation. The Group adheres to the principle of recycling and reducing, and implements green office practices to minimize the impact of businesses on the environment.

The Group has adopted following measures to save energy and electricity:

- Based on the output per 100,000 pieces, the company targeted and achieved during the Reporting period to control the electricity consumption within 53,000 kWh;
- Turn off lightings, electric appliances, machines and facilities when not in use to reducing energy consumption;
- Turn off the air conditioners and lightings during non-office hours (including lunch time) and that in idle rooms;
- Regular maintenance of office equipment such as air conditioners, computers, lights, refrigerators, etc. to ensure they are operating efficiently; and
- Printing machine in the office is set at energy-saving mode by default, and the sleep mode is automatically turned on, if not in use for a certain interval in time so as to reduce unnecessary energy consumption.

Energy consumption by the Group during the Reporting Period and the corresponding period in 2020 are set out below:

Energy Consumption

Type of energy	Energy consumed (kWh) 2021	Energy consumed (kWh) 2020
Unleaded petrol	**39,461.88**	41,121.48
Diesel	**225,530.66**	323,258.88
Purchased electricity	**3,806,040.00**	3,452,800.00
Natural gas	**2,702,700.00**	1,974,549.38
Total	**6,773,732.54**	5,791,729.74
Energy intensity (kWh/m²)	**108.53**	92.79

Generation of waste

Solid waste is mainly generated from our Group's daily operation and production. Such solid waste includes non-hazardous waste, including but not limited to office-use paper, and hazardous waste generated during the production process, including but not limited to used mineral oil, waste paint slag, waste paint and waste activated carbon. In order to heighten environmental awareness, we have implemented various measures, galvanizing employees to recycle office supplies and other materials and rooting out excessive consumption of unnecessary supplies.

To reduce hazardous waste, we keep monthly record on waste data for the sake of calculating and keeping track of the volume of hazardous waste disposed of. We will remind employees to use resources carefully to avoid overconsumption. Moreover, the Group has established hazardous waste warehouse to temporarily store all solid hazardous waste generated in the production process and has engaged industrial waste collectors to collect and dispose of industrial hazardous waste. When the hazardous waste reaches a certain amount, the industrial waste collector is notified to transfer such waste.

To reduce the impact of hazardous and non-hazardous wastes on environmental pollution, the Group has the following measures:

- Aim to reduce the generation of hazardous and non-hazardous waste;

- Record data of hazardous and non-hazardous waste in the ledger and fill out the Waste Statistics Form before submitting to the Finance Department for review and approval by the general manager;

- For hazardous wastes, our office is required to regularly report to the business system of the Anhui Provincial Department of Ecology and Environment, and hire a qualified third-party professional organization to dispose of the hazardous wastes. The third-party professional organization would formulate transportation, storage and disposal solutions regarding the different dangerous wastes. After verifying with and weighed by the third party, the wastes are transferred and disposed of; and

- Target and achieved during the Reporting Period to limit waste discharge to 0.13 ton per 100,000 pieces produced.

The total hazardous and non-hazardous wastes generated during the Reporting Period and the corresponding period in 2020 are stated as follows:

Hazardous and non-hazardous waste

	2021 (ton)	2020 (ton)
Hazardous waste	**8.85**	6.67
Non-hazardous waste	**0.02**	0.02
Total	**8.87**	6.79
Intensity (ton/m²)	**0.0001**	0.0001

Packaging material

	2021 (ton)	2020 (ton)
Paper	**4.46**	86.04
Paper Intensity (ton/m²)	**0.0001**	0.0014
Plastic	**21.09**	19.98
Plastic Intensity (ton/m²)	**0.0003**	0.0003

Note: Due to the reduction in paint and certain orders this year, the use of paper cartons applied to packaging also decreased accordingly.

The Environment and Natural Resources

The Group raises staff's awareness on environmental issues through education and training and enlist employees' support in improving the Group's performance, promote environmental awareness amongst the customers, business partners and shareholders and support community activities in relation to environmental protection and sustainability and evaluate regularly and monitor past and present business activities impacting upon health, safety and environmental matters. With the integration of policies mentioned in sections "Emissions" and "Use of Resource", the Group strives to minimise the impacts to the environment and natural resources. The principal business activities of the Group do not have significant impact on the environment and natural resources.

Climate change

The Group is committed to protect the ecological environment. The Group aims to minimize the impact of all production and daily operations on the environment. Although climate change and extreme weather conditions do not directly pose a major threat to the Group's business operations, in the face of the impact of climate change, including global warming and changes in the ecological environment, the Group has taken a series of measures to achieve energy saving and emission reduction to mitigate the impact of climate change on the Group.

For reducing the impact of all activities on climate change, the Group has the following measures:

- Reduce carbon footprint by setting and implementing long-term carbon reduction targets;
- Protect natural resources, save energy, reduce and recycle wastes, with a view to reducing pollution and carbon emissions;
- Increase the use of renewable energy through on-site power generation, outsourcing renewable energy and other feasible methods;
- Consider climate change factors in the procurement process and encourage the use of low-carbon and energy-efficient products and materials;
- Through regular training, education and enhancing the environmental protection awareness of employees, cooperative units and contractors, convey our environmental protection policy through internal and external communication channels;
- Develop appropriate operating procedures and measures to prevent or reduce the damage that climate change causes to the us, and to seize the related opportunities brought about by climate change;
- Comply with all relevant environmental laws and other relevant environmental protection requirements, and strive to achieve higher standards when practicable;
- Develop emergency management plans to deal with extreme weather events caused by climate change;
- Strengthen resilience and monitor the impact of climate change on the business and carbon management goals and objectives; and
- Communicate with stakeholders such as employees, suppliers, and local communities on the impact of climate change and the our climate change strategy to help them improve their resilience to climate change.

SOCIAL

Employment and Labour Practices

Employment

The Group regards its employees as the cornerstone of its development, and an integral part to its sustainable development. Therefore, the Group attaches high importance to the training and welfare of its employees, and are committed to providing a working environment of job satisfaction to its employees. The Group puts much effort to ensure the statutory rights of its employees are protected and its strict compliance with a series of labour law of the PRC, including the PRC Labour Contract Law, the PRC Labour Law and the Social Insurance Law of the PRC. The Group provides competitive remuneration and good promotion opportunities to facilitate career development of its employees.

The Group has formulated its staff manual and management system of human resources and remuneration according to relevant labour regulations, covering human resources policies and working conditions, such as recruitment and promotion procedures, trainings, performance appraisals, remuneration and benefits, working hours, vacations and other leaves (marriage leave, compassionate leave and maternity leave).

During the Reporting Period, the Group strictly complied with labour laws of the PRC and relevant regulations, and had not been involved in any event of breach of laws and regulations relating to employment relationship, which had a significant impact on the Group.

Below is a detailed breakdown of our employees by gender, age group, employment category and regions as at 31 December 2021 and 31 December 2020:

	2021		2020	
	Number of staff	**% of total**	Number of staff	% of total
By gender				
Male	**108**	**42**	128	44
Female	**152**	**58**	163	56
Total	**260**	**100**	291	100
By age group				
Below 25	**4**	**2**	4	2
25 to 29	**13**	**5**	16	5
30 to 39	**49**	**19**	53	18
40 to 49	**74**	**28**	94	32
Above 50	**120**	**46**	124	43
Total	**260**	**100**	291	100

	2021		2020	
	Number of staff	**% of total**	Number of staff	% of total
By employment category				
Normal	**248**	**95**	280	96
Middle	**11**	**4**	10	3
Senior	**1**	**1**	1	1
Total	**260**	**100**	291	100

* All employees are permanent staff and are located in the Anhui Province, PRC.

During the Reporting Period, 80 employees (2020: 104) left the Group. Below is a detailed breakdown of our employees turnover rate by gender and age group as at 31 December 2021 and 31 December 2020:

	2021	2020
Turnover rate by gender		
Male	**31%**	25%
Female	**28%**	43%
Turnover rate by age group		
Below 25	**50%**	100%
25 to 29	**28%**	59%
30 to 39	**29%**	39%
40 to 49	**18%**	27%
50 or above	**36%**	33%

To attract and retain talents

The Group upholds the operational philosophy of optimally using all available talents and resources and sticks to the employment principle based on the abilities and morality of an employee. Main criteria for employment include morality, knowledge, abilities and track record of employees so as to make best use of and retain talents.

The Group provides employees with fair and equitable remuneration and benefits based on employees' personal track record, experience and market benchmark. The Group has formulated a set of performance appraisal mechanism, in which appropriate remuneration adjustment is made annually based on job performance of an employee to reduce turnover rate. To effectively evaluate and optimize the career life for its employees, the Group also assists employees to analyze their personal career development direction according to their own conditions and guide them to complete the employees' career development planning form to establish goals and strategies of their career life.

Health and Safety

We have complied with all material applicable PRC laws and regulations in relation to employee health and safety, including but not limited to the Work Safety Law of the PRC (中華人民共和國安全生產法). We have complied with all material applicable PRC laws and regulations in relation to employee health and safety. We had not had any incidents, claims or complaints which had materially and adversely affected our operations. Taking occupational health and safety of employees as one of our prime responsibilities, we have established relevant safety policies and provided training to our new staff. We have compiled safety manuals and distributed to our employees and set out regulations on safety management which our staffs are required to comply with. We carry out regular safety checks on our manufacturing and processing lines and equipment to ensure that such manufacturing and processing lines and equipment are safe for use. Furthermore, all of our employees are provided with work place safety trainings.

Our safety work policy is “safety first with prevention”. By including the occupational health and safety code in the Employee Handbook and conducting daily training and safety inspection, we aim to enhance employees’ safety awareness and reduce the occurrence of industrial accidents. Before operating equipment or vehicles, employees shall attend relevant operation trainings to obtain work license or operation license. Employees at the workshop must wear labour protection appliances, such as protective glasses for operating drilling machine and spot welding. Before the maintenance worker commences his work, specific safety procedures must be abided by, such as cutting off the power. Those procedures are commonly known as lockout or tagout warning.

We have emergency procedures for unexpected accidents in place. For example, if an employee has an accident, the accident shall be reported to the head of the department or the general manager immediately and then the human resources department will be notified within the subsequent 8 hours. As all the employees of the human resources department have attended the training on the relevant emergency procedures, they can take effective measures to avoid the accident expanding and preserve the accident scene.

During the Reporting Period, the Group did not have any official records of fatal accidents and major work-related deaths.

For the year ended 31 December 2021, the Group’s work-related deaths and work related injury records for the latest three reporting years are set out below:

	2021	2020	2019
Work-related fatalities:	**–**	–	–
– Work-related mortality	**–**	–	–
Number of people injured at work:	**14**	26	–
– Number of days lost due to work-related injuries	**144**	52	–

Fire safety management

We organize a fire drill semi annually according to the Fire Drill Plan. After the end of the fire drill, a Summary Report on Fire Drill will be prepared to record the fire drill results and review items, so as to ensure employees familiar with all the escape routes and enhance their ability to make immediate response. In addition, employees of the production workshop shall be responsible for checking the fire equipment monthly and filling in the Check Sheet of Fire Equipment.

During the Reporting Period, there were no material non-compliance cases noted in relation to health and safety laws and regulations.

Development and Training

We regard our employees as the most precious assets, and their quality is the guarantee of our future. We put people first, take the investment in staff development and training as our primary task, and establish a complete set of training courses, systems and personal development plans for employees. Through a series of training courses, we can assist employees to improve their professional skills, personal quality and foreign language level, further enhance their working ability and give full play to their potential.

The Group always puts great emphasis on talent training and believes that employees' skill and experience are essential to promoting the long-term development of the Group. Continuing education is one of the effective ways to maintain employees' competitiveness in the industry. Therefore, the Group annually formulates annual training plan with an aim to enhance employees' performance through effective training, counselling and in-service development. During the Reporting Period, we provided trainings for employees from the production department on production operation and quality standards, trainings for employees from the quality control department on equipment repair and maintenance, and trainings for employees from the material control department on warehouse management procedures.

Statistics in respect of development and training for the year ended 31 December 2021 and 31 December 2020 is set out below:

	2021	2020
Employee trained by gender		
Male	**69%**	85%
Female	**63%**	113%
Employee trained by employment category		
Normal	**64%**	103%
Middle	**100%**	60%
Senior	**100%**	0%

The average training hours for employees by gender and employment category during the Reporting Period and the corresponding period in 2020 are as follows:

	2021 Hours per employee	2020 Hours per employee
By gender		
Male	**0.63**	1.68
Female	**0.67**	1.26
By employment category		
Normal	**0.64**	1.46
Middle	**0.73**	0.91
Senior	**3.00**	–

Criteria of employment

The Group endeavours to protect human rights, creating a workplace of respect, sincerity and fairness for its employees and customers, and comply with all relevant laws and regulations in relation to criteria of employment, including but not limited to the Labor Law of the PRC (中華人民共和國勞動法).

The Group has complied with all significant laws and regulations related to the prevention of child labour or forced labour, including but not limited to the Prohibition of the Use of Child Labor of the People's Republic of China (中華人民共和國禁止使用童工規定), The Law of the People's Republic of China on the Protection of Minors (中華人民共和國未成年人保護法) and the Convention on the Abolition of Forced Labor (廢除強迫勞動公約).

The Group prohibits the use of forced labour and child labour, and lists important notes of recruitment process in policies and procedure of human and administration department. The Group has stringent requirements for shortlisting employees. In recruiting candidates for positions below management level, the Group requests job applicants to provide identity card, academic certificate of their highest level, professional certificates and employment separation certificate regarding their former jobs for verifying their identity.

If the management finds illegal employment of child labour or forced labour within the Company, their employment contract will be terminated immediately by the Company. After inquiry into the cause and finding out persons held responsible, the Company will impose appropriate punishment on those in violation of the regulations. No employment of forced labour and child labour occurred in the Group during the Reporting Period.

Operation Management

Supply chain management

Our major raw materials include steel, steel parts, plastic parts, oil paint and paint powder. The quality and reliability of our stamping components and peripheral components highly depend on the quality of raw materials we source. Stable supply of quality raw materials is considered as one of the keys to our success of our business.

We maintain stable business relationships with our suppliers. We maintain long-term good cooperation relationships with our suppliers. Leveraging on the established long-term business relationships with our key suppliers, we are able to source quality raw materials to match with our prescribed standards for production at reasonable terms with acceptable credit periods. During the Reporting Period, we had approximately 14 major suppliers. (2020:16). Most of our suppliers are located in Anhui province or other nearby provinces in the PRC, such close proximity to our key suppliers assures us of prompt delivery and lower transportation costs.

We have generally maintained around three different raw materials suppliers for procurement of each type of our major raw materials. Such suppliers shall make quality inspections on the samples provided by suppliers and fill in the Supplier Evaluation Form (供方評價表) in accordance with the Supplier Management System (供應商管理制度), to ensure the Company's preliminary quality assessment on suppliers for initial cooperation. We evaluate potential suppliers based on a range of factors, including their technical strengths, product quality, quality control effectiveness, pricing, core management team, credit rating, scale, reputation, capacity and ability to meet our delivery time. In addition to this, we also assess whether suppliers consider environmental and social standards, including prohibiting child labour and forced labour, eliminating discrimination against employees, providing a safe work environment, considering whether products and services are environmentally friendly and meet the Group's internal environmental requirements while minimizing negative impacts on the natural environment and strictly comply with laws. When necessary, our procurement staff will conduct on-site investigations.

Thus, we believe there are no significant environmental and social risks for our management decision on supply chain management during the Reporting Period.

Product liability

Our customers generally are component processors and manufacturers of prominent white goods brands. We take pride in our long-term business relationships with our customers.

The quality, function and safety of our products and services are of critical importance to our customers. We strictly comply with the applicable laws, regulations and quality standards with regard to the health and safety of the products and services provided and labels, such as the Product Quality Law of the PRC (中華人民共和國產品質量法), the Interim Measures for the Supervision and Administration of Energy Conservation and Emission Reduction at Central Enterprises (中央企業節能 減排監督管理暫行辦法), the Law of the PRC on Promoting Clean Production (中華人民共和國清潔生產促進法), etc. In addition, to further standardize quality management work and to continuously improve on product's quality, we renewed the certification of Quality Management Systems – Requirements (ISO 9001: 2015) during the Reporting Period, and based on that requirement formulated and implemented the production and painting of home appliance accessories (metal stamping parts), production of home appliance accessories (injection parts) and management procedure of polishing.

We sell products and provide services to our customers through direct sales model which does not involve any issues related to product advertising.

Quality control

Product quality is a crucial factor to our success. As we strive to produce high quality products, we implement stringent quality control measures at each key stage of our manufacturing and processing to ensure our products meet the standards required by our customers. Our quality control team possesses over 20 years of experience in quality control in the relevant industry, and is responsible for ensuring that raw materials, semi-finished and finished products manufactured and processed by us pass through our quality control procedures and meet our standards. Our quality control team monitors our manufacturing and processing process and conducts quality and sample testing to ensure that our stamping components and peripheral components can meet the requirements of our customers. In recognition of our quality control system, we have renewed ISO 9001:2015 in relation to our quality management system during the Reporting Period.

Our manufacturing and processing for both stamping components and peripheral components begin with inspection of raw materials. All raw materials including incoming raw materials such as steel, steel parts, plastic parts, oil paint and paint powder are subject to on-site inspection on a sampling basis and raw materials which do not meet our standards will be returned to the suppliers.

During the production and processing, inspectors check the production workshops every two hours, and record the results on Inspection Record (巡檢檢驗記錄). In addition, inspectors make sampling inspections on finished products on batches, and record the results on Finished Product Inspection Report (成品入庫檢驗報告), only qualified products could be packaged and shipped to the warehouse. We organize an evaluation group to identify unqualified products and communicate with customers in accordance with Evaluation Regulation on Unqualified Products (不合格品評審規定).

During the reporting period, no products of the Group are recalled due to health and safety reasons.

Complaint mechanism

If customers are not satisfied with the quality of our products or services, they may lodge formal complaints, and we will respond promptly and conduct internal surveys and studies to seek the solution to the problem. Our management will contact the customers directly in respect of such issues.

During the year, the Group has not received any significant complaints regarding products and services.

Protecting customer's privacy and intellectual property rights

We attach great importance to the protection of intellectual property rights and the achievements of our research and development colleagues. We rely upon a combination of patents, copyrights and trademarks, trade secrets, confidentiality policies and other contractual arrangements to protect our intellectual property rights. In addition, we protect our trade secrets by entering into either confidentiality agreements or trade secrets protection agreements with our suppliers and employees.

The information needed to be kept confidential by the Group is mainly about new products which have not been released, namely confidential project. Once a new confidential project is started, only authorized staff could access to such information, other staff including management in charge of the confidential project are not available for review. Design drawings and images must be stored in a special computer, which could not be connected with Internet. The sending and receiving of messages and dates can only be connected to other special computers via specialized cable.

It is also clearly stated in the staff manual that staff must strictly abide by the confidentiality of the Group, and shall not disclose confidential information of the Group to unrelated staff in the Group or persons on the outside. If the disclosure of confidential information of the Group results in losses of the Group and customers, the Group will penalize according to internal stringent procedures or pursue legal responsibilities to protect the interests of the Group and its customers.

The USB ports of the batch of computers will also be locked so that staff cannot take the confidential information away without authorization. In addition, in order to keep the confidentiality of the information about customer products, the Group has appointed certain dedicated persons to be responsible for enhancing the security of the information system.

In respect of production plants, if the production project is classified as a confidential project as required by the customer, the production plant will be isolated, and unauthorized and non-productive personnel will be prohibited entering. Even authorized personnel shall be required to produce documents of certification to security guards and if necessary, be searched for any unreleased new products. Such measures will not be abolished until the official release of the product by the customer.

During the Reporting Period, there are no disputes between our Group and our customers in respect of the quality of products produced by us and there were no cases of non-compliance against laws and regulations related to products responsibilities.

Anti-Corruption

Honesty, integrity and fair competition are core values held by all of our directors and staff. We prohibit any form of bribery and corruption, and directors and staff shall not request, accept or provide any bribery during the course of businesses. The Group strictly complies with relevant laws and regulations including Prevention of Bribery Ordinance (防止賄賂條例) and Anti-Corruption and Bribery Law of the PRC (中華人民共和國反貪污賄賂法), and constantly monitors the compliance with relevant laws and regulations by the management and staff.

The Group aims to encourage and assist whistleblowers to disclose information related to misconduct, fraud and violations through confidential reporting channels as far as possible. We will handle the reports carefully and deal fairly and appropriately with the concerns of whistleblowers. We provide reporting channels for employees to report possible misconduct and assure whistleblowers that we will protect them and oppose any unfair disciplinary action or victimization that is actually reported. We ensure that all whistleblowers who report truthfully and appropriately will be treated fairly. In addition, we will ensure that employees are not subject to unfair dismissal, injury or improper disciplinary action.

During the reporting period, the Group organized anti-corruption and anti-bribery training for directors and departmental management to ensure that all directors understand corruption, fraud, conflicts of interest and insider trading, and to facilitate relevant management to prevent, implement and monitor the Group’s anti-corruption and kickbacks measures.

The Group was not aware of any violation of laws and regulations related to bribery that have material impact on our business during the Reporting Period and no concluded legal cases regarding corrupt practices against the Company or its employees are brought during the Reporting Period.

Community Investment

The Group understands that corporate development relies on the support of all sectors of society. While developing the Company, the Group also demonstrates its spirit of giving back to society. We will keep understanding the needs of our community, ensure that we take into account the interests of the community in our daily operations, and strive to find the direction of community investment, so as to invest more resources in the community in the coming year. At the same time, the Group also encourages employees to participate in community activities to support and care for society.

CORPORATE GOVERNANCE REPORT

The Board is committed to upholding a high standard of corporate governance and business ethics in the firm belief that they are essential for enhancing investors' confidence and maximising shareholders' returns.

CORPORATE GOVERNANCE PRACTICES

The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders, and to comply with increasingly stringent regulatory requirements as well as fulfill its commitment to excellence in corporate governance.

After reviewing the Company's corporate governance practices and the relevant regulations of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules, the Board is satisfied that save for the deviation from code Provision C.2.1 as disclosed below, the Company complied with the code provisions as set out in Appendix 15 of the GEM Listing Rules for the entire year ended 31 December 2021.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith and in the best interests of the Company and its shareholders. The Board has established three Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee (each a "**Board Committee**" and collectively the "**Board Committees**"), to oversee different areas of the Company's affairs.

The Board currently comprises two executive Directors, namely Mr. Fan Baocheng and Mr. Zhou Zhen Dong and three independent non-executive Directors, namely, Mr. Ho Ka Chun, Mr. Chan Chun Chi and Mr. Liang Chi.

A list of the Directors identifying their roles and functions are available on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

There is no financial, business, family or other material or relevant relationship among members of the Board. The biographical details of each of the Directors are set out in the section headed "Biographical details of Directors and Senior Management" of this annual report on pages 11 to 13.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual, interim and quarterly results, notifiable transactions, director appointments or re-appointments, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

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

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their reasonable request. The Board reviews the implementation and effectiveness of such mechanism annually.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis as and when necessary.

BOARD COMMITTEES

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

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

(i) Audit Committee

The Audit Committee was established on 31 March 2018. The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Chun Chi, Mr. Ho Ka Chun and Mr. Liang Chi. Mr. Chan Chun Chi and Mr. Ho Ka Chun have appropriate professional qualifications and experience in accounting matters and Mr. Chan Chun Chi, was appointed as the chairman of the Audit Committee. With reference to the terms of reference of the Audit Committee, the primary duties of the Audit Committee, among others, are as follows:

(a) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and to approve the remuneration and terms of engagement of the Company's external auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards;

(c) to develop and implement policy on engaging the Company's external auditor to supply non-audit services;

(d) to monitor integrity of the Company's financial statements and the annual report and accounts, half-year reports and quarterly reports, and to review significant financial reporting judgments contained in them;

(e) to discuss the risk management and internal control system with management of the Group to ensure that the management of the Group has performed its duty to have effective systems; and

(f) to review the financial and accounting policies and practices of the Group, to provide advice and comments to the Board on matters related to corporate governance and to ensure compliance with the laws and regulations relevant to the Group.

The Company has complied with Rule 5.28 of the GEM Listing Rules that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate qualifications or accounting or related financial management expertise.

Five Audit Committee meetings were held during the year ended 31 December 2021 to review, assess and comment on the consolidated quarterly, interim and final results of the Group as well as the planning of 2021 annual audit. The Audit Committee has also reviewed the risk management and internal control system of the Group, the continuing connected transaction(s) carried out by the Group and the compliance with the Deed of non-competition in the section headed "Report of the Directors" of this annual report. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2021 have complied with applicable accounting standards and GEM Listing Rules and that adequate disclosures have been made. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for re-appointment as the independent auditors of the Company at 2022 AGM.

(ii) Remuneration Committee

The Remuneration Committee was established on 31 March 2018. The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Ho Ka Chun, Mr. Liang Chi and Mr. Chan Chun Chi. Mr. Ho Ka Chun is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee are to review and make recommendations to the Board on the overall remuneration structure and policy for all Directors and senior management as well as the specific remuneration packages for the executive Directors and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

The remuneration policy for the Directors and the senior management members is based on their experience, level of responsibility, length of service and general market conditions. Any discretionary bonus and other merit payments are linked to the financial results of the Group and the individual performance of the directors and senior management members. With reference to the terms of reference of the Remuneration Committee, the duties of the Remuneration Committee, among others, are as follows:

(a) to review and make recommendations to the Board on the Company's policy and structure for remuneration of the Directors and senior management of the Company;

(b) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management of the Group;

(c) to make recommendations to the Board on the remuneration of non-executive Directors;

(d) to review and approve compensation payable to executive Directors and senior management of the Group for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive with the market practice;

(e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(f) to operate the Company's share option scheme or other incentive scheme as they apply to, and recommend to the general meeting(s) of shareholders, grants of options to be made to Directors and senior management.

The Remuneration Committee held one meeting during the year ended 31 December 2021. Major work completed by the Remuneration Committee during the year includes:

- reviewed the remuneration policy and structure relating to the Directors and senior management of the Company;
- reviewed the Company's share option scheme; and
- assessed performance of the executive Directors.

The remuneration of the senior management of the Group by band for the year ended 31 December 2021 is set out below:

Remuneration band	Number of person(s)
Nil to RMB1,000,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 18 to the GEM Listing Rules are set out in notes 10 and 11 to the consolidated financial statements.

(iii) Nomination Committee

The Nomination Committee was established on 31 March 2018. It comprises three independent non-executive Directors, namely Mr. Liang Chi, Mr. Ho Ka Chun and Mr. Chan Chun Chi. Mr. Liang Chi is the chairman of the Nomination Committee. With reference to its terms of reference, the primary duties of the Nomination Committee, among others are as follows:

(a) to formulate nomination policy for the Board's consideration and implement the Board's approved nomination policy;

(b) to review the structure, size, composition and diversity (including the skills, knowledge, experience and length of service) of the Board with the Board Diversity Policy at least annually, and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(c) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorship and senior management for the Board's approval;

(d) to assess the independence of independent non-executive Directors and to review the independent non-executive Directors' annual confirmations on their independence; and to make disclosure of its review results in the corporate governance report;

(e) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular, the chairman and the chief executive of the Company; and

(f) to review the Board Diversity Policy and the progress on achieving the objectives set for implementing the said Policy.

The Nomination Committee held one meeting during the year ended 31 December 2021 and reviewed the size, diversity and composition of the Board, and discussed the policy for the nomination of directors, which includes the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship.

BOARD MEETINGS

Board meetings are held regularly and at least four times a year at approximately quarterly intervals. For regular Board meetings, notices of at least 14 days are given to facilitate maximum attendance of the Directors and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the chairman or the company secretary to include matters in the agenda for regular board meetings. At the meeting, the Directors are provided with the relevant documents to be considered and approved. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held. Minutes of Board meetings are taken by the company secretary or a duly appointed secretary of the Board meeting and are open for inspection by any Director.

The table below sets out the attendance of each Director at the annual general meeting (the "**AGM**") and the meetings of the Board and other Board committees held during the year:

	Meetings attended/held				
	AGM	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Fan Baocheng	1/1	6/6	N/A	N/A	N/A
Mr. Zhou Zhen Dong	1/1	6/6	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Ho Ka Chun	1/1	6/6	5/5	1/1	1/1
Mr. Chan Chun Chi	1/1	6/6	5/5	1/1	1/1
Mr. Liang Chi	1/1	6/6	5/5	1/1	1/1

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors and independent non-executive Directors of the Company has entered into a service contract with the Company for a term of three years subject to his retirement and re-election at annual general meeting in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the shareholders.

BOARD NOMINATION POLICY

The Nomination Committee shall endeavor to find individuals of high integrity who have a solid record of accomplishment in their chosen fields and who possess the qualifications, qualities and skills to effectively represent the best interests of the Group and its shareholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives. Candidates also will be assessed in the context of the then-current composition of the Board, the operating requirements of the Group. In conducting this assessment, the Nomination Committee will, in connection with its assessment and recommendation of candidates for director, consider diversity (including, but not limited to, gender, race, ethnicity, age, experience and skills) and such other factors as it deems appropriate given the then current and anticipated future needs of the Board and the Company, and to maintain a balance of perspectives, qualifications, qualities and skills on the Board.

The Nomination Committee considers the following qualifications at a minimum to be required of any Board members in recommending to the Board potential new board members, or the continued service of existing members:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;
- requirement for the Board to have independent directors in accordance with the GEM Listing Rules;
- can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- 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.

The procedure of nomination by the nomination committee is as follows:

(a) the Nomination Committee identifies individual suitably qualified to become Board members, having due regard to the Board Diversity Policy and the Nomination Policy of the Company, and assesses the independence of the proposed independent non-executive Director(s) as appropriate;

(b) the Nomination Committee makes recommendations to the Board;

(c) the Board considers the individual recommended by the Nomination Committee, having due regard to the Board Diversity Policy and the nomination policy of the Company;

(d) the Board confirms the appointment of the individual as Director or recommends the individual to stand for election at a general meeting. Individual appointed by the Board to fill a casual vacancy or as an addition to the Board will be subject to re-election by Shareholders of the Company at the next annual general meeting after initial appointment in accordance with the Company's articles of association; and

(e) the Shareholders approve the election of individual, who stands for election at general meeting, as director.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") on 31 March 2018. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on the Company's Board Nomination Policy and a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The Board also aspires to having an appropriate proportion of directors who have direct experience in the Group's core markets and distribution channels.

The Board considered that independent non-executive Directors can enhance the effectiveness and decision-making of the Board by providing independent view, objective judgement and constructive challenge to the Board and management of the Group.

The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

Having reviewed the Board composition, the Board recognises the importance and benefits of gender diversity at the Board level and shall continue to take initiatives to identify female candidate(s) to enhance the gender diversity among the Board members. We will appoint, subject to the above, at least one female representation in the Board before 31 December 2024.

The diversity philosophy including the gender diversity was generally followed in the workforce throughout the Group for the year ended 31 December 2021. As at 31 December 2021, 100% Directors of the Company and 42% workforce of the Group were male. The Board will endeavor to increase female representation in the Board.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. All Directors are provided updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the GEM Listing Rules and other applicable regulatory requirements are provided to the Board during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. In December 2021, the Company provided training materials to all the Directors of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Fan Baocheng holds the positions of Chairman and chief executive officer. Such practice deviates from Code Provision C.2.1 which stipulates that the roles of Chairman and chief executive officer should be separate and should not be performed by the same individual.

In view of Mr. Fan being one of the founders of the Group and has been operating and managing Chuzhou Xiezhong Home Appliances Accessories Co., Ltd.* (滁州市協眾家電配件有限公司), the operating subsidiary of the Company since 2010, the Board believes that it is in the best interest of the Group to have Mr. Fan taking up both roles for effective management and business development. The Board believes that the Company has already had a strong corporate governance structure in place to ensure effective overseeing of management.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

In compliance with Rules 5.05(1) and 5.05 of the GEM Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one- third of the Board. Two of the independent non-executive Directors have the appropriate professional qualifications in accounting or related financial management expertise as required by 5.05(2) of the GEM Listing Rules.

Each independent non-executive Director has submitted annual confirmation of his independence to the Company pursuant to rule 5.09 of the GEM Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in rules 5.48 to 5.67 of the GEM Listing Rules as the Company's code of conduct regarding Directors' securities transactions (the "**Securities Dealing Code**"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the year ended 31 December 2021.

Senior management who, because of their office in the Company, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Securities Dealing Code when dealing in the Company's shares.

COMPANY SECRETARY

Mr. Tsoi Ka Shing, the Company Secretary of the Company, is a full-time employee of the Group and has day-to-day knowledge of the Company's affairs. He also serves as the secretary of the Audit Committee, the Nomination Committee and the Remuneration Committee and other Board Committees as organised by the Board from time to time. Mr. Tsoi is responsible for advising the Board through the Chairman and/or the chief executive officer on governance matters.

During the financial year, the Company Secretary complied with the relevant professional training requirement under Rule 5.15 of the GEM Listing Rules. The biographical details of the Company Secretary is set out in the section headed "Biographical Details of Directors and Senior Management" on pages 11 to 13 in the annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the strategic objectives of the Group and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems.

The Group's risk management framework sets out the process of identification, evaluation and management of the principal risks affecting the business. The Group has adopted a set of internal control measures to address various potential operational, financial and legal risk identified in relation to the operation, including but not limited to procurement management, inventory management, information disclosure control, IT management and other various financial control and monitor procedures.

The Board is responsible for reviewing the effectiveness of the Group's risk management and internal control systems through regular meetings with the management. In addition, the Audit Committee with professional advices and opinions from the external internal control consultant of the Company is responsible for ensuring the sufficiency and effectiveness of the Group's risk management and internal control systems through regular inspection and monitoring. Mr. Fan, an executive Director, has been appointed as the compliance officer and is responsible for reviewing the compliance policies and procedures of the Group annually. Mr. Fan will also be responsible for updating the compliance policies and procedures of the Group to ensure that they are up to date in accordance with the applicable regulatory requirements.

The risk management framework, coupled with the internal controls, ensures that the risk associated with different divisions of the Group are effectively controlled and in line with the Group's appetite. However, the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objective, and can only provide reasonable and not absolute assurance against material misstatement or loss.

As the corporate and operation structure of the Group is relatively not complex and a separate internal audit department may divert resources of the Group, the Group currently does not have an internal audit department. However, the Group engaged an external internal control consultant, APEC RISK MANAGEMENT LIMITED, to conduct a review on the internal control system of the Group during the year ended 31 December 2021. The review covered certain operational procedures and included recommendations for improvement and strengthening of the internal control system of the Group. No significant control failings or weakness have been identified by the external internal control consultant during the review. The Board considered the internal control system effective and adequate and no significant areas of concern which might affect shareholders were identified.

DIVIDEND POLICY

The Company has set up a dividend policy (the "**Dividend Policy**") on 28 December 2018 with an aim to strike a balance between maintaining sufficient capital to develop and operate the business of the Group and rewarding the shareholders of the Company. According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account the following factors:

(a) the Company's operating results, actual and expected financial performance;

(b) retained earnings and distributable reserves of the Company and each of the members of the Group;

(c) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

(d) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(e) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;

(f) the Group's liquidity position;

(g) general economic conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and

(h) any other factors that the Board may deem appropriate and relevant.

The declaration and payment of dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rules and regulations and the Articles of Association. The declaration and payment of future dividend 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. The Board will review the Dividend Policy from time to time and may exercise at its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time as it deems fit and necessary.

DIRECTORS' RESPONSIBILITY IN PREPARING FINANCIAL STATEMENTS

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

EXTERNAL AUDITORS

HLB Hodgson Impey Cheng Limited ("**HLB**") has been appointed as the external auditors of the Company. The Audit Committee has been notified of the nature and the service performed by HLB and considered that such service has no adverse effect on the independence of the external auditors.

For the years ended 31 December 2021 and 2020, the fees payable to HLB or its affiliated firms comprise service charges for the following:

	2021 **HK$'000**	2020 HK$'000
Statutory audit	**650**	660

No non-audit service was provided by HLB for the years ended 31 December 2021 and 2020. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the year ended 31 December 2021.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

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

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the shareholders. The Company encourages the participation of the shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the shareholders no less than 20 business days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

(ii) Enquiries and proposals to the Board

The Company encourages shareholders to attend shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the registered office of the Company in Hong Kong currently situated at Room 1603, 16th Floor, China Building, 29 Queen's Road Central, Central, Hong Kong.

(iii) Convening extraordinary general meetings

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid-up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at Room 1603, 16th Floor, China Building, 29 Queen's Road Central, Central, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the GEM Listing Rules are sent to shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

(iv) Procedures for proposing a person for election as a Director

Pursuant to the Article 113 of the articles of associations of the Company, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office. The period for lodgement of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

SHAREHOLDERS' COMMUNICATION POLICY

The Company has adopted a shareholders' communication policy (the "**Shareholders' Communication Policy**") with the objective of ensuring that the shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company (including the financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the shareholders to exercise their rights in an informed manner, and to allow the shareholders and potential investors to engage actively with the Company.

In accordance with the Shareholders' Communication Policy, the Company has established a range of communication channels between itself and its shareholders and potential investors. These include, information of the Company will be communicated to the shareholders and potential investors mainly through the Company's financial reports (quarterly, interim and annual reports), answering questions through the annual general meetings and other general meetings that may be convened, as well as the publication of notices, announcements and circulars on the websites of the Stock Exchange and the Company.

The Company endeavours to maintain an ongoing dialogue with the Shareholders and in particular, through annual general meeting and EGM. In respect of each matter to be considered at the annual general meeting and the EGM, including the re-election of Directors, a separate resolution will be proposed by the chairman of the Board. The chairman of the Board and the chairmen of the Board Committees and, in their absence, other members of the respective committees, will be available at the annual general meeting and the EGM to meet with the Shareholders and answer their enquiries. The Company will also invite representatives of the auditor of the Company to attend the annual general meeting of the Company to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

The Company recognises the importance of shareholders' privacy and will not disclose shareholders' information without their consent, unless required by law to do so.

The communication strategies under the shareholders' communication policy are as follows:

(i) Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited.

Should there be any enquiries and concerns from shareholders, they may send in their written enquiries to the Board by addressing them to the principal place of business of the Company in Hong Kong under Part 16 of the Companies Ordinance (located at Room 1603, 16th Floor, China Building, 29 Queen's Road Central, Central, Hong Kong) by post for the attention of the Board and/or the Company Secretary. Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

(ii) Corporate Communications

Corporate communication documents (including annual report, interim report, quarterly reports, notice of meeting, circular and proxy form) would be provided to shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communications.

(iii) Corporate Website

Information on the Company's website (www.baoshen.com.hk) is updated on a regular basis.

Corporate communications are posted on the Company website as soon as practicable following their publication on the website of Stock Exchange. Such information includes, but not limited to, financial statements, results announcements, ESG reports, circulars and notices of general meetings and associated explanatory documents.

The Company's annual, interim and quarterly results announcement will be made available on the Company's website as soon as practicable after their release.

All press releases, if any, issued by the Company would be made available on the Company's website as soon as practicable after their releases.

A dedicated Corporate Governance section is also available on the Company website, which included director nomination policy and shareholder communication policy, and updated on a regular basis.

(iv) Shareholders' Meetings

Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings.

The process of the Company's general meeting will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that shareholders' needs are best served.

Board members, in particular, the chairmen of Board Committees or their delegates and external auditor would, where appropriate, attend annual general meetings to answer shareholders' questions.

DISSEMINATION OF INSIDE INFORMATION

The Group is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Group has in place a policy on disclosure of inside information which sets out the procedures and internal controls for handling and dissemination of inside information. Such policy provides guidelines to the Directors, officers and all relevant employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information.

Key procedures in place include:

- define the requirements of periodic financial and operational reporting to the Board and Company Secretary to enable them to assess inside information and make timely disclosures, if necessary;

- controls the access to inside information by employees on a need-to-know basis, and safeguarding the confidentiality of the inside information before it is properly disclosed to public;

- procedures of communicating with the Group's stakeholders, including shareholders, investors, analysts, etc. in ways which are in compliance with the GEM Listing Rules.

The Group has also established and implemented procedures to handle enquiries from external parties related to the market rumours and other Group's affairs.

To avoid uneven dissemination of inside information, the dissemination of inside information of the Company shall be conducted by publishing the relevant information on the Stock Exchange's website and on the Company's website.

CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2021.

* English translation name is for identification purpose only

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE MEMBERS OF BAO SHEN HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Bao Shen Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 131, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
Refer to Notes 4 and 17 to the consolidated financial statements	
We identified impairment assessment of trade receivables as a key audit matter as significant management estimates and judgements are required in the determination of the outcome of impairment losses under the expected credit losses model. As at 31 December 2021, the Group had gross trade receivables of approximately RMB45,741,000 and provision for impairment of approximately RMB1,747,000. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realization of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.	Our procedures in relation to impairment assessment of trade receivables mainly included: • Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2021 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as understanding ongoing business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and • We also engaged an independent valuation expert to assist us to assess the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and assessing the reasonableness of the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We also assessed the adequacy of the Group's disclosures about the expected credit loss allowance regarding trade receivables in the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' 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 of the Company 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 basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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.

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Lo Kin Kei.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Lo Kin Kei
Practising Certificate Number: P06413

Hong Kong, 25 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	5	**136,981**	120,850
Cost of sales		**(114,045)**	(100,898)
Gross profit		**22,936**	19,952
Other income and gains	6	**1,496**	2,014
Selling and distribution expenses		**(6,141)**	(4,455)
Administrative expenses		**(19,474)**	(15,956)
Finance costs	7	**(3,137)**	(2,543)
Loss before tax		**(4,320)**	(988)
Income tax credit/(expense)	8	**582**	(74)
Loss for the year	9	**(3,738)**	(1,062)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**(482)**	(1,033)
Other comprehensive expense for the year		**(482)**	(1,033)
Total comprehensive expense for the year		**(4,220)**	(2,095)
Loss for the year attributable to owners of the Company		**(3,738)**	(1,062)
Total comprehensive expense for the year attributable to owners of the Company		**(4,220)**	(2,095)
Basic and diluted losses per share (RMB cents)	13	**(0.89)**	(0.25)

The accompanying notes form an integral part of these consolidated financial statements. Details of dividends paid and proposed are disclosed in Note 12 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	14	**30,308**	33,133
Right-of-use assets	15	**10,358**	11,154
Deposits	17	**1,300**	2,008
		41,966	46,295
Current assets			
Inventories	16	**19,390**	18,488
Trade and other receivables	17	**54,646**	65,634
Cash and bank balances	18	**35,649**	34,233
		109,685	118,355
Total assets		**151,651**	164,650
Current liabilities			
Trade and other payables	19	**37,438**	43,446
Bank borrowings	20	**30,650**	28,650
Other borrowings	21	**3,008**	2,803
Lease liabilities	22	**318**	1,021
Current tax liabilities		**–**	839
		71,414	76,759
Net current assets		**38,271**	41,596
Total assets less current liabilities		**80,237**	87,891
Non-current liabilities			
Other borrowings	21	**1,341**	4,585
Lease liabilities	22	**–**	318
Deferred tax liabilities	23	**1,328**	1,200
		2,669	6,103
Net assets		**77,568**	81,788

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	24	**3,364**	3,364
Reserves	25	**74,204**	78,424
Total equity		**77,568**	81,788

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 March 2022 and signed on its behalf by:

Mr. Fan Baocheng
Director

Mr. Zhou Zhen Dong
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital RMB'000 (Note 24)	Share premium RMB'000 (Note 24)	Other reserve RMB'000 (Note 25(b))	Translation reserve RMB'000	PRC statutory reserve RMB'000 (Note 25(a))	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2020	3,364	52,292	(9,070)	3,449	2,914	30,934	83,883
Loss for the year	–	–	–	–	–	(1,062)	(1,062)
Exchange differences on translating foreign operation	–	–	–	(1,033)	–	–	(1,033)
Loss and total comprehensive expense for the year	–	–	–	(1,033)	–	(1,062)	(2,095)
Transfer from retained earnings	–	–	–	–	688	(688)	–
Balance at 31 December 2020 and 1 January 2021	3,364	52,292	(9,070)	2,416	3,602	29,184	81,788
Loss for the year	–	–	–	–	–	(3,738)	(3,738)
Exchange differences on translating foreign operation	–	–	–	(482)	–	–	(482)
Loss and total comprehensive expense for the year	–	–	–	(482)	–	(3,738)	(4,220)
Balance at 31 December 2021	3,364	52,292	(9,070)	1,934	3,602	25,446	77,568

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Loss before tax		**(4,320)**	(988)
Adjustments for:			
Depreciation of right-of-use assets		**445**	395
Depreciation of property, plant and equipment		**4,298**	3,872
Provision for impairment losses on trade receivables		**75**	1,030
Net losses on disposals of property, plant and equipment		**106**	119
Interest income		**(34)**	(31)
Finance costs recognised in profit or loss		**3,137**	2,543
		3,707	6,940
Movements in working capital:			
Increase in inventories		**(902)**	(1,977)
Decrease/(increase) in trade and other receivables		**11,619**	(17,292)
(Decrease)/increase in trade and other payables		**(5,989)**	11,014
Decrease in amount due to a related party		**–**	(82)
Cash generated from/(used in) operations		**8,435**	(1,397)
Interest paid		**(637)**	(433)
Income tax paid		**(129)**	(592)
Net cash generated from/(used in) operating activities		**7,669**	(2,422)
Cash flows from investing activities			
Proceeds on disposals of property, plant and equipment		**110**	107
Payments for property, plant and equipment		**(1,338)**	(5,838)
Interest received		**34**	31
Net cash used in investing activities		**(1,194)**	(5,700)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Cash flows from financing activities			
Interest paid		**(2,500)**	(2,110)
Proceeds from other borrowings		**–**	8,900
Repayment of other borrowings		**(3,039)**	(1,512)
Repayment of lease liabilities		**(1,021)**	(1,214)
Proceeds from bank borrowings		**36,630**	28,650
Repayment of bank borrowings		**(34,630)**	(27,324)
Net cash (used in)/generated from financing activities		**(4,560)**	5,390
Net increase/(decrease) in cash and cash equivalents		**1,915**	(2,732)
Cash and cash equivalents at the beginning of year		**34,233**	38,032
Effect of foreign exchange rate changes		**(499)**	(1,067)
Cash and cash equivalents at the end of year		**35,649**	34,233
Analysis of balances of cash and cash equivalents			
Cash and bank balances	18	**35,649**	34,233

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL

Bao Shen Holdings Limited (the "Company") was incorporated in the Cayman Islands on 14 December 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 23 April 2018. Its parent and ultimate holding company is Wang Mao Investments Limited ("Wang Mao"), a company incorporated in the British Virgin Islands (the "BVI") and wholly owned by Mr. Fan Baocheng ("Mr. Fan").

The address of the Company's registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of the Company's principal place of business in the People's Republic of China (the "PRC") is No. 719, Shuang Ying Road, Wu Yi Industrial Park, Nanqiao Suburb, Chuzhou City, Anhui, the PRC. The Company is an investment holding company. The Group is principally engaged in plastic and steel component manufacturing and processing (including (i) stamping components manufacturing; (ii) spray-painting components processing; (iii) powder-coating components processing; and (iv) plastic components manufacturing) in the PRC.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates (the "functional currency"). The functional currency of the Group's operating subsidiaries is RMB. The consolidated financial statements is presented in RMB, which is different from the functional currency of the Company (i.e. Hong Kong dollars ("HK$"). The choice of presentation currency is to better reflect the currency that mainly determines economic effects of transactions, events and conditions of the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

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

In addition, the Group has early applied the Amendment to HKFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021.*

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Impacts on application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions and early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021

The Group has applied the Amendment to HKFRS 16 *Covid-19-Related Rent Concessions* for the first time and early applied the Amendment to HKFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021* in the current year retrospectively. The amendments introduce a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions that occurred as a direct consequence of the COVID-19 pandemic that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases ("HKFRS 16") if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of these amendments has had no material impact on the Group's financial positions and performance in the current and prior years.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

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

[1] Effective for annual periods beginning on or after 1 January 2022.
[2] Effective for annual periods beginning on or after 1 January 2023.
[3] Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based payment*, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Revenue from the sale of stamping components, spray-painting components, powder-coating components and plastic components directly to the customers is recognised at the point that the control of the finished products has passed to the customers, which is primarily upon the delivery of the products to the customers.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of factories that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Right-of-use assets (Continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Sale and leaseback transactions

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a seller-lessee

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee continues to recognise the assets and accounts for the transfer proceeds as other borrowings within the scope of HKFRS 9.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of each of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Government grants

Government grants are not recognised until there is a reasonable assurance that the Group will comply with conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “loss before tax” as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets other than goodwill *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows;

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these receivables. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment assessment under HKFRS 9 (including trade receivables, deposit, other receivables and bank balances). The amount of ECL is updated at the end of each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. 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. In particular, the following information is taken into account when assessing whether the 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 debtors;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(i) Significant increase in credit risk *(Continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, 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 reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers an event of default occurs when (i) there is a breach of financial covenants by the counterparty; or (ii) 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 collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower; or
- a breach of contract, such as a default or past due event; or
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL *(Continued)*

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured of FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, other borrowings, bank borrowings and lease liabilities are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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 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;

or

(b) the party is an entity where 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 of a parent, subsidiary or fellow subsidiary of the other entity);
- (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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial periods.

Impairment of receivables

The Group records impairment of receivables based on an assessment made by management on the expected credit losses of trade and other receivables. Impairment assessment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

5. REVENUE AND SEGMENT INFORMATION

HKFRS 8 *Operating Segments* requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. On this basis, the Group's has determined that it only has one operating segment which is a plastic and steel components processor (including (i) stamping components manufacturing; (ii) spray-painting components processing; (iii) powder-coating components processing; and (iv) plastic components manufacturing) in the PRC.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

	2021 **RMB'000**	2020 RMB'000
An analysis of revenue by type of goods is as follows:		
Revenue from customer and recognised at point in time		
Peripheral components		
– Spray-painting peripheral components	**13,822**	16,090
– Powder-coating peripheral components	**37,232**	36,533
Stamping components	**32,452**	32,026
Plastic components	**53,475**	36,201
	136,981	120,850

Geographical information

The Company is domiciled in the Cayman Islands with the Group's major operations in the PRC. All external revenue of the Group during the years ended 31 December 2021 and 2020 are attributable to customers incorporated in the PRC, the place of domicile of the Group's operating entities. Substantially all the non-current assets of the Group are located in the PRC.

Information about major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group for the years ended 31 December 2021 and 2020 were as follows:

	2021 **RMB'000**	2020 RMB'000
Customer A	**57,578**	47,064
Customer B	**44,108**	39,957

6. OTHER INCOME AND GAINS

	2021 **RMB'000**	2020 RMB'000
Interest income on bank deposits	**34**	31
Net losses on disposals of property, plant and equipment	**(106)**	(119)
Net sales of moulds and scrap	**909**	1,216
Government grants (Note)	**659**	884
Net foreign exchange gains	**–**	2
	1,496	2,014

Note: There are no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

	2021 **RMB'000**	2020 RMB'000
Interest on bank borrowings	**1,775**	1,710
Interest on other borrowings	**632**	247
Interest on lease liabilities	**93**	145
Finance costs arising on early redemption of note receivables	**637**	433
Costs of guarantees on bank borrowings	**–**	8
	3,137	2,543

8. INCOME TAX (CREDIT)/EXPENSE

	2021 RMB'000	2020 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")		
– Current year	–	339
– Over provision in prior years	(710)	(1,574)
Deferred tax	128	1,309
Total income tax recognised in profit or loss	(582)	74

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits during the years ended 31 December 2021 and 2020. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits arising in or derived from Hong Kong for the years ended 31 December 2021 and 2020.

PRC subsidiary is subject to PRC EIT at 25% for the years ended 31 December 2021 and 2020. No provision for PRC EIT has been made in the consolidated financial statements as the Group had incurred losses for taxation purposes in the PRC for the year ended 31 December 2021.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

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

	2021 RMB'000	2020 RMB'000
Loss before tax	(4,320)	(988)
Tax at the statutory tax rates	(868)	52
Tax effect of expenses not deductible for tax purpose	704	2,049
Tax effect of income not taxable for tax purpose	(934)	(453)
Tax effect of tax loss not recognised	1,226	–
Over provision in respect of prior years	(710)	(1,574)
Income tax (credit)/expense for the year	(582)	74

9. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging/(crediting):

	2021 **RMB'000**	2020 RMB'000
Employee benefits expenses (including directors' emoluments (Note 10)):		
Salaries, allowance and other benefits in kind	**24,062**	21,389
Contributions to defined contribution plan	**1,936**	1,425
Total employee benefits expense	**25,998**	22,814

	2021 **RMB'000**	2020 RMB'000
Auditors' remuneration	**540**	595
Depreciation of property, plant and equipment	**4,298**	3,872
Depreciation of right-of-use assets (included in cost of sales and administrative expenses)	**445**	395
Net foreign exchange gains	**–**	(2)
Provision for impairment loss on trade receivables	**75**	1,030
Expenses related to short-term lease (included in cost of sales and administrative expenses)	**–**	319
Research and development costs recognised as an expense (included in administrative expenses)	**9,658**	5,091
Cost of inventories recognised as an expense	**113,508**	100,383

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors of the Company for the years ended 31 December 2021 and 2020 were as follows:

		Other emoluments			
	Fees	Salaries, allowances and other benefits in kind	Discretionary bonuses	Contributions to defined contribution plan	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2021					
Executive directors					
Mr. Fan (Note (i))	–	559	–	18	577
Mr. Zhou Zhen Dong ("Mr. Zhou")	–	199	–	–	199
Independent non-executive directors					
Mr. Liang Chi	–	80	–	–	80
Mr. Ho Ka Chun	–	100	–	–	100
Mr. Chan Chun Chi	–	100	–	–	100
	–	1,038	–	18	1,056
Year ended 31 December 2020					
Executive directors					
Mr. Fan (Note (i))	–	654	–	30	684
Mr. Zhou	–	214	–	–	214
Independent non-executive directors					
Mr. Liang Chi	–	85	–	–	85
Mr. Ho Ka Chun	–	107	–	–	107
Mr. Chan Chun Chi	–	107	–	–	107
	–	1,167	–	30	1,197

Note:

(i) Mr. Fan is also the chief executive of the Company and his emoluments disclosed included those for services rendered by him as the chief executive.

None of the directors waived any emoluments during the years ended 31 December 2021 and 2020. In addition, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2020: two) was a director of the Company for the years ended 31 December 2021 whose emoluments are included in the disclosures in Note 10 above. The emoluments of the remaining three (2020: three) individuals for the year ended 31 December 2021 respectively were as follows:

	2021 **RMB'000**	2020 RMB'000
Salaries and other benefits in kind	**634**	1,483
Contributions to defined contribution plan	**50**	75
	684	1,558

Their emoluments were all within nil to HK$1,000,000.

12. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2021, nor has any dividend been proposed since the end of the reporting period (2020: nil).

13. LOSSES PER SHARE

	2021	2020
Loss attributable to owners of the Company (in RMB'000)	**(3,738)**	(1,062)
Weighted average number of ordinary shares for the purpose of basic and diluted losses per share	**420,000,000**	420,000,000
Basic and diluted losses per share (in RMB cents)	**(0.89)**	(0.25)

For the years ended 31 December 2021 and 2020, the calculation of the basic losses per share attributable to owners of the Company was based on (i) the loss attributable to owners of the Company and (ii) the weighted average number of ordinary shares issued during the year.

Diluted losses per share is equal to basic losses per share as there were no dilutive potential ordinary shares in issue during the year (2020: Nil).

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
Balance at 1 January 2020	20,901	23,445	2,337	808	4,334	51,825
Additions	–	813	1,156	19	3,850	5,838
Transfer from right-of-use assets	–	603	–	–	–	603
Transfer	3,415	4,048	–	–	(7,463)	–
Disposals	–	(1,665)	–	–	–	(1,665)
Balance at 31 December 2020 and 1 January 2021	24,316	27,244	3,493	827	721	56,601
Additions	–	1,157	–	29	152	1,338
Transfer from right-of-use assets	–	425	–	–	–	425
Disposals	–	(1,336)	(230)	(72)	–	(1,638)
Balance at 31 December 2021	24,316	27,490	3,263	784	873	56,726
Accumulated depreciation						
Balance at 1 January 2020	8,040	10,393	2,090	402	–	20,925
Depreciation expense	1,309	2,232	131	200	–	3,872
Transfer from right-of-use assets	–	110	–	–	–	110
Eliminated on disposals	–	(1,439)	–	–	–	(1,439)
Balance at 31 December 2020 and 1 January 2021	9,349	11,296	2,221	602	–	23,468
Depreciation expense	1,340	2,497	308	153	–	4,298
Transfer from right-of-use assets	–	74	–	–	–	74
Eliminated on disposals	–	(1,136)	(218)	(68)	–	(1,422)
Balance at 31 December 2021	10,689	12,731	2,311	687	–	26,418
Carrying amounts						
Balance at 31 December 2021	13,627	14,759	952	97	873	30,308
Balance at 31 December 2020	14,967	15,948	1,272	225	721	33,133

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

The above items of property, plant and equipment, after taking into account of their estimated residual value, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, and 20 years
Plant and machinery	10%–20%
Motor vehicles	25%
Furniture and equipment	33.33%

As at 31 December 2021, certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB20,756,000 (2020: approximately RMB14,967,000) have been pledged to secure certain bank borrowings and other borrowings granted to the Group.

Sale and leaseback transactions – seller-lessee

To better manage the Group's capital structure and financing needs, the Group sometimes enters into sale and leaseback arrangements in relation to machinery leases. These legal transfer does not satisfy the requirements of HKFRS 15 to be accounted for as a sale of the machinery. During the year ended 31 December 2020, the Group has raised approximately RMB8,900,000 borrowings in respect of such sale and leaseback arrangements.

15. RIGHT-OF-USE ASSETS

The lease term of the Group's plant and machinery are two years during the year ended 31 December 2021 (2020: two years). At the end of the lease period, if no default occurs during the lease period, the ownership of the plant and machinery shall be automatically transferred to the Group at nil consideration.

	Leasehold land	**Plant and machinery**	**Total**
	RMB'000	RMB'000	RMB'000
As at 31 December 2021			
Carrying amount	8,666	1,692	10,358
As at 31 December 2020			
Carrying amount	8,884	2,270	11,154
For the year ended 31 December 2021			
Depreciation charge	218	227	445
For the year ended 31 December 2020			
Depreciation charge	218	177	395

15. RIGHT-OF-USE ASSETS *(Continued)*

	2021 RMB'000	2020 RMB'000
Expense relating to short-term leases	–	319
Total cash outflow for leases	1,114	1,760
Addition to right-of-use assets	–	2,389

The above right-of-use assets are depreciated on a straight-line basis over their estimated useful life or lease term as follows:

Leasehold land	over the lease terms of 50 years
Plant and machinery	10%–20%

As at 31 December 2021, the Group's right-of-use assets amounted to approximately RMB10,358,000 (2020: approximately RMB11,154,000) were located in the PRC.

As at 31 December 2021, the Group's right-of-use assets with the aggregate carrying amounts of approximately RMB8,666,000 (2020: approximately RMB8,884,000) have been pledged to secure certain bank borrowings granted to the Group.

16. INVENTORIES

Inventories in the consolidated statements of financial position comprise:

	2021 RMB'000	2020 RMB'000
Raw materials	5,237	5,618
Work-in-progress	6,131	4,655
Finished goods	4,408	4,526
Moulds and consumables	3,614	3,689
	19,390	18,488

17. TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Current assets		
Trade receivables	**45,741**	53,862
Less: Provision for impairment losses on trade receivables	**(1,747)**	(1,672)
	43,994	52,190
Note receivables (Note (i))	**2,075**	2,414
Deposits, prepayments and other receivables	**8,577**	11,030
	54,646	65,634
Non-current assets		
Deposits (Note (ii))	**1,300**	2,008
	55,946	67,642

Notes:

(i) Note receivables are received from customers under ordinary course of business. All of them are bank acceptance notes and commercial acceptance notes with a maturity period within six months.

(ii) The amounts represent refundable performance securities for other borrowings.

17. TRADE AND OTHER RECEIVABLES *(Continued)*

An aging analysis of trade receivables based on the revenue recognition date was as follows:

	2021	2020
	RMB'000	RMB'000
0–90 days	**38,808**	49,524
91–180 days	**4,757**	2,263
Over 180 days	**2,176**	2,075
	45,741	53,862

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. The credit period was ranging from 60 days to 180 days upon the issue of invoices to its customers for the years ended 31 December 2021 and 2020. No interest is charged on overdue receivables.

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB6,902,000 (2020: approximately RMB4,280,000) which are past due as at the reporting date. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

Impairment assessment on trade receivables subject to ECL model

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9. The debtors are grouped under a provision matrix based on shared credit risk characteristics. For the year ended 31 December 2021, additional provision of approximately RMB75,000 (2020: additional provision of approximately RMB1,030,000) was made against the gross amounts of trade receivables.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2021 and 2020 are set out in Note 28.

18. CASH AND BANK BALANCES

The Group's cash and bank balances with aggregate amounts of approximately RMB22,151,000 (2020: approximately RMB17,561,000), at 31 December 2021, were denominated in RMB which is not a freely convertible currency in the international market. The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

19. TRADE AND OTHER PAYABLES

	2021	2020
	RMB'000	RMB'000
Trade payables	**26,897**	31,883
Other payables and accruals	**10,489**	11,457
Contract liabilities	**52**	106
	37,438	43,446

The following is an aged analysis of trade payables based on the invoice date:

	2021	2020
	RMB'000	RMB'000
0–90 days	**20,664**	22,020
91–180 days	**4,516**	5,997
180–365 days	**1,111**	2,286
Over 365 days	**606**	1,580
	26,897	31,883

As at 31 December 2021 and 2020, the trade payables are non-interest bearing and generally ranging from 30 days to 180 days.

As at 31 December 2021, contract liabilities amounting to approximately RMB52,000 (2020: approximately RMB106,000).

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2021	2020
	RMB'000	RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	**106**	6

Contract liabilities represent cash received from customers in advance for which the goods are yet to be delivered, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

20. BANK BORROWINGS

	2021 **RMB'000**	2020 RMB'000
Bank borrowings – secured:		
Fixed rate	**30,650**	28,650
Carrying amounts of bank borrowings that are repayable within one year from the end of the reporting period shown under current liabilities	**30,650**	28,650

During the year ended 31 December 2021, the bank borrowings bear interest at 3.65% to 6% (2020: at 6%) per annum.

At 31 December 2021 and 2020, the bank borrowings were secured by a charge over the Group's property, plant and equipment, right-of-use assets, personal guarantee given by Mr. Fan and the corporate guarantee given by the third party. The borrowings were denominated in RMB.

21. OTHER BORROWINGS

	2021 **RMB'000**	2020 RMB'000
Other borrowings – secured:		
Fixed rate	**4,349**	7,388
Carrying amounts of other borrowings that are repayable with one year from the ended of the reporting period shown under current liabilities	**3,008**	2,803
The carrying amounts of the above borrowings are repayable:		
Within one year	**3,008**	2,803
Within a period of more than one year but not exceeding two years	**1,321**	3,244
Within a period of more than two years but not exceeding five years	**20**	1,341
	4,349	7,388
Less: Amounts due within one year shown under current liabilities	**(3,008)**	(2,803)
Amounts shown under non-current liabilities	**1,341**	4,585

During the year ended 31 December 2021, the other borrowings bear interest at 10.63% per annum (2020: ranging from 10.35% to 10.63% per annum).

Other borrowings were denominated in RMB. The other borrowings were secured by the Group's property, plant and equipment, refundable performance securities and the personal guarantee given by Mr. Fan and his spouse.

22. LEASE LIABILITIES

	2021	2020
	RMB'000	RMB'000
Lease liabilities:		
Current	**318**	1,021
Non-current	**–**	318
	318	1,339

The lease liabilities was denominated in RMB.

As at 31 December 2021 and 2020, the Group's lease liabilities relating to plant and machinery are secured by:

(a) the lessor's title to the leased assets, details of carrying amounts of such assets are disclosed in note 15;

(b) personal guarantees amounting to respective outstanding minimum lease payment by Mr. Fan and his spouse.

23. DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

(i) Deferred tax assets

	2021	2020
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
Provision for loss allowance on trade receivables	**437**	418
Total deferred tax assets	**437**	418
Set-off of deferred tax liabilities pursuant to set-off provisions	**(437)**	(418)
Net deferred tax assets	**–**	–

23. DEFERRED TAX ASSETS/LIABILITIES *(Continued)*

(i) Deferred tax assets *(Continued)*

Movements	Provision for loss allowance on trade receivables	Total
	RMB'000	RMB'000
Balance at 1 January 2020	160	160
Credited to profit or loss (Note 8)	258	258
Balance at 31 December 2020 and 1 January 2021	418	418
Credited to profit or loss (Note 8)	19	19
Balance at 31 December 2021	437	437

(ii) Deferred tax liabilities

	2021	2020
	RMB'000	RMB'000
The balance comprises temporary differences attributable to:		
Accelerated tax depreciation	**1,714**	1,567
Withholding tax	**51**	51
Total deferred tax liabilities	**1,765**	1,618
Set-off of deferred tax liabilities pursuant to set-off provisions	**(437)**	(418)
Net deferred tax liabilities	**1,328**	1,200

23. DEFERRED TAX ASSETS/LIABILITIES *(Continued)*

(ii) Deferred tax liabilities *(Continued)*

Movements	Accelerated tax depreciation RMB'000	Withholding tax RMB'000	Total RMB'000
Balance at 1 January 2020	–	51	51
Charged to profit or loss (Note 8)	1,567	–	1,567
Balance at 31 December 2020 and 1 January 2021	1,567	51	1,618
Charged to profit or loss (Note 8)	147	–	147
Balance at 31 December 2021	1,714	51	1,765

At the end of reporting period, the Group has estimated unused tax losses of approximately RMB4,904,000 (2020: nil) available for offset against future profits. The tax losses are subject to the final assessment by the tax authorities in the respective jurisdictions where the tax losses arising from. No deferred tax asset has been recognised in respect of the estimated unused tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward for a period of five years from their respective year of origination.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of the profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiary amounting to approximately RMB36,655,000 (2020: approximately RMB36,838,000) as at 31 December 2021 as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

24. SHARE CAPITAL

The Company

	Number of shares	Amounts HK$
Authorised ordinary shares at HK$0.01 each		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	2,000,000,000	20,000,000
Issued and fully paid ordinary shares at HK$0.01 each		
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	420,000,000	4,200,000

	RMB'000
Shown on the statements of financial position at 31 December 2021 and 2020	3,364

25. RESERVES

(a) PRC statutory reserve

Pursuant to the PRC Company Law, a company shall retain 10% of the profits as the company's statutory reserve funds when the company distributes the profits after tax of the then financial year, and the retention can be stopped upon the company's statutory reserve funds has accumulated up to 50% of the registered capital of the Company.

According to the Regulations for the Implementation of the Law of the PRC on Sino-foreign Equity Joint Ventures, an enterprise shall, after payment of income tax in compliance with the PRC Enterprise Income Tax Law, retain reserve funds, staff incentive, and welfare funds and enterprise development funds from profits after tax at such proportion at the discretion of the board of directors of the enterprise.

As stipulated by the relevant laws and regulations for foreign invested enterprises in the PRC, the wholly-owned foreign enterprise is required to maintain statutory reserve which is non-distributable. Appropriations to such reserves are made out of net profit after payment of income taxes on the profits pursuant to the tax laws of China annually but must not be less than 10% of the net profit after tax, until such reserves reach 50% of the registered capital.

(b) Other reserve

Other reserve of the Group represents the difference between the amount of consideration paid by the Group for the acquisition of Chuzhou Xiezhong Home Appliance Accessories Co., Ltd* (滁州市協眾家電配件有限公司) ("Xiezhong") and the amount of paid-up capital of the aforesaid subsidiary acquired.

26. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund ("MPF") Scheme under rules and regulations of MPF Schemes Ordinance for all its employees in Hong Kong. The assets of the Schemes are held separately from those of the Group, in funds under the trustees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

As at 31 December 2021 and 2020, there were no forfeited contributions available to offset future employers' contributions to the schemes.

The total expenses recognised in the consolidated statements of profit or loss and other comprehensive income amounted to approximately RMB1,936,000 (2020: approximately RMB1,425,000) for the year ended 31 December 2021 and represented contributions payable to these plans by the Group at rates specified in the rules of plans.

* English translation name is for identification purpose only

27. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the years ended 31 December 2021 and 2020.

The capital structure of the Group consists of net debt (which includes borrowings net of cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves).

Adjusted debt-to-equity ratio

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the issuance of new shares, raise of borrowings or repayment of the existing borrowings.

The adjusted debt-to-equity ratios at the end of each of the reporting period were as follows:

	2021 **RMB'000**	2020 RMB'000
Debts (Note (i))	**35,317**	37,377
Cash and cash equivalents	**(35,649)**	(34,233)
Net debt	**(332)**	3,144
Equity (Note (ii))	**77,568**	81,788
Adjusted debt-to-equity ratio	**N/A**	4%

Notes:

(i) Debt comprises bank borrowings, other borrowings and lease liabilities as detailed in Notes 20, 21 and 22 respectively.

(ii) Equity includes all capital and reserves attributable to owners of the Company.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2021 RMB'000	2020 RMB'000
Financial assets		
Financial assets at amortised cost		
– Trade receivables	**43,994**	52,190
– Note receivables	**470**	548
– Deposits and other receivables	**6,574**	7,400
– Cash and bank balances	**35,649**	34,233
	86,687	94,371
Debt instruments at FVTOCI		
– Note receivables	**1,605**	1,866
Financial liabilities		
Amortised cost	**72,703**	80,717

(b) Financial risk management objectives and policies

The Group's major financial instruments include deposits, trade and other receivables, cash and bank balances, trade and other payables, bank borrowings, other borrowings and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The management has been monitoring these risk exposures to ensure appropriate measures are implemented on a timely and effective manner so as to mitigate or reduce such risks.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks throughout the years ended 31 December 2021 and 2020.

28. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Foreign currency risk management

As the assets and liabilities of the Group are mainly denominated in the respective group entities' functional currency at 31 December 2021 and 2020, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between the respective group entities' functional currency and other currencies and the Group's income and operating cash flows are substantially independent of changes in foreign currency exchange.

Interest rate risk management

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing financial assets and financial liabilities. The Group are exposed to cash flow interest rate risk in relation to variable-rates bank balances and fair value interest rate risk in relation to fixed-rates bank borrowings, other borrowings and lease liabilities. The directors of the Company continue to monitor the interest rate exposure of the Group.

The fixed rate instruments of the Group are insensitive to any change in market interest rates.

Management does not anticipate significant impact to interest-bearing asses resulted from the changes in interest rates, because the interest rates of bank balances are relatively low and not expected to change significantly.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

No sensitivity analysis has been prepared for the exposure to interest rate risk on the Group's bank balances as the directors of the Company consider that the exposure is minimal.

28. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk management

Credit risk refers to the risk that the Group's counterparties default on their contractual obligation resulting in financial losses to the Group. The Group's credit risk is primarily attributable to trade and other receivables, pledged bank deposits and bank balances. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of each of the reporting period.

In order to minimise the credit risk on trade receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit quality of the debtors is assessed based on their financial position, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors. In addition, the Group reviews the recoverable amount of each individual trade debt by weekly basis and debt instrument at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation. The Group is also subject to concentration of credit risk arising from its trade receivables as 86% (2020: 84%) of these receivables are due from the Group's largest five customers as at 31 December 2021.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

28. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk management *(Continued)*

The Group's internal credit risk grading comprises the following categories:

Category	Group definition of category	Basis for recognition of ECL
Performing	There have low risk of default and has not been any significant increase in credit risk since initial recognition	12-month ECL
Doubtful	There have been significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
Default	There is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

	Lifetime expected credit loss rate	Gross carrying amount RMB'000	Lifetime expected credit loss RMB'000	Net carrying amount RMB'000
As at 31 December 2021				
Trade receivables	3.8%	45,741	1,747	43,994
As at 31 December 2020				
Trade receivables	3.1%	53,862	1,672	52,190

28. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk management *(Continued)*

Trade receivables (Continued)

The movement in the provision of impairment losses on trade receivables is as follow:

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL (not credit impaired) RMB'000
As at 1 January 2020	642
Impairment losses recognised	1,030
As at 31 December 2020 and 1 January 2021	1,672
Impairment losses recognised	75
As at 31 December 2021	1,747

During the year ended 31 December 2021, the increase in the trade receivables which are past due contributed to the increase in the provision (2020: the increase in gross carrying amount of trade receivables with days past due over 90 days has contributed to the increase in loss allowance of approximately RMB964,000).

The creation and release of provision for impaired trade receivables have been included in "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Other receivables

As at 31 December 2021 and 2020, the internal credit ratings of the financial assets included in other receivables were performing. Accordingly, management has measured the loss allowances of these financial assets at 12-month ECL as they have low risks of default and the counterparties have strong capacities to meet their contractual cash flow obligations in the near term. Loss allowances of these financial assets were not material as at 31 December 2021 and 2020.

Note receivables

The Group accepts bank acceptance bills issued by major banks and commercial acceptance bills in the PRC which were assigned high credit rating by international credit rating agencies and considers that the credit risk associated with such bills to be insignificant.

28. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk management *(Continued)*

Bank balances

The credit risk for bank balances is considered not material as such amounts are placed in reputable banks with high credit rating assigned by international credit rating agencies. There has been no recent history of default in relation to these banks and thus the risk of default is regarded as low.

Liquidity risk management

In the management of the 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.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, the maturity analysis for non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Weighted average interest rate	On demand or less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total undiscounted amount	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2021						
Trade and other payables	**–**	**37,386**	**–**	**–**	**37,386**	**37,386**
Bank borrowings	**5.65**	**30,951**	**–**	**–**	**30,951**	**30,650**
Other borrowings	**10.63**	**3,312**	**1,386**	**20**	**4,718**	**4,349**
Lease liabilities	**2.05**	**337**	**–**	**–**	**337**	**318**
		71,986	**1,386**	**20**	**73,392**	**72,703**
At 31 December 2020						
Trade and other payables	–	43,340	–	–	43,340	43,340
Bank borrowings	6.00	28,945	–	–	28,945	28,650
Other borrowings	10.58	3,431	3,552	1,406	8,389	7,388
Lease liabilities	2.11	1,238	337	–	1,575	1,339
		76,954	3,889	1,406	82,249	80,717

28. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis. Some of the Group's financial assets are measured at fair value at the end of each reporting period.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at 31 December 2021 RMB'000	Fair value as at 31 December 2020 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Note receivables at FVTOCI	**1,605**	1,866	Level 2	Discounted cash flow – estimated future cash flows are discounted at market interest rate that reflects the time value to the date of settlement

During the years ended 31 December 2021 and 2020, there were no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3.

29. LIST OF SUBSIDIARIES

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of company	Date and place of incorporation/ establishment	Issued and fully paid share capital/paid-up capital	Equity interest attributable to the Company as at 31 December 2021	2020	Principal activities
Wealthy Square Developments Limited ("Wealthy Square")	28 September 2015, the British Virgin Islands (the "BVI")	1 ordinary share of US$1	**100% (directly)**	100% (directly)	Investment holding in Hong Kong
Dragon shiner Development Limited ("Dragon Shiner")	24 July 2015, Hong Kong	HK$1	**100% (indirectly)**	100% (indirectly)	Investment holding in Hong Kong
Xiezhong	16 November 2010, PRC	RMB5,000,000	**100% (indirectly)**	100% (indirectly)	Plastic and steel component manufacturing and processing (including (i) stamping components manufacturing; (ii) spray-painting components processing; (iii) powder-coating components processing; and (iv) plastic components manufacturing) in the PRC

None of the subsidiaries had issued any listed securities at the end of the reporting period. The Group had no subsidiaries which have material non-controlling interest for the years ended 31 December 2021 and 2020.

30. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure banking facilities granted to the Group or borrowings of the Group:

	2021 RMB'000	2020 RMB'000
Right-of-use assets	**8,666**	8,884
Property, plant and equipment	**20,756**	14,967
	29,422	23,851

31. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in Note 20, 21 and 22 in the consolidated financial statements, the Group entered into the following significant related party transactions during the years ended 31 December 2021 and 2020:

(i) As at 31 December 2021 and 2020, the lease liabilities relating to plant and machinery is secured by personal guarantee by Mr. Fan and his spouse.

(ii) As at 31 December 2021 and 2020, the other borrowings relating to plant and machinery is secured by personal guarantee by Mr. Fan and his spouse.

(iii) As at 31 December 2021, certain bank borrowing is secured by personal guarantee by Mr. Fan.

(iv) The Group also entered into the following significant related party transactions with related parties based on the term mutually agreed by both parties during the years ended 31 December 2021 and 2020:

Name of related party	**Nature of transaction**	**2021** **RMB'000**	2020 RMB'000
滁州市亙興噴塑有限公司 (Chuzhou Genxing Powder-Coating Co., Ltd*) ("Chuzhou Genxing") (Note)	Leases of factories	–	319

Note: Chuzhou Genxing was controlled by Mr. Fan.

* English translation name is for identification purpose only

(v) Compensation of key management personnel

The directors of the Company are identified as key management personnel of the Group and the remuneration of key management during the reporting period is set out in Note 10.

32. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 31 March 2018 as to attract and retain the best available personnel and to provide additional incentive to the eligible participants under the Scheme.

Under the Scheme, the directors of the Company may at their absolute discretion and subject to the terms of the Scheme, grant options to employees (full-time and part-time), directors, substantial shareholders, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group, to subscribe for shares of the Company. The eligibility of any participants to the grant of any options shall be determined by the directors from time to time on the basis of participant's contribution or potential contribution to the development and growth of the Group.

Under the Scheme, the maximum number of shares issuable upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company as from the adoption date must not in aggregate exceed 10% of all the shares in issue upon the date on which the shares are listed and permitted to be dealt in the Stock Exchange. The 10% limit may be refreshed at any time by obtaining approval of the Company's shareholders in general meeting provided that the total number of Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other share options schemes of the Company must not exceed 10% of the Company's shares in issue as at the date of approval of the refreshed limit. The aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the Company's shares in issue from time to time. No options may be granted under the Scheme or any other share options schemes of the Company if this will result in the limit being exceeded.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the Scheme or any other share option schemes of the Company in any 12-month period up to date of grant shall not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant under the Scheme would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his/her close associates abstaining from voting.

No share options were granted since the adoption of the Scheme and there were no share option outstanding as at 31 December 2021 and 2020.

33. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2021 were approved for issue by the Board of Directors on 25 March 2022.

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2021 RMB'000	2020 RMB'000
Non-current assets		
Investment in a subsidiary	–	–
Current assets		
Prepayments	76	71
Amount due from a subsidiary	30,880	31,894
Bank balances	11,673	14,394
	42,629	46,359
Total assets	42,629	46,359
Current liabilities		
Accruals	530	666
	530	666
Net current assets	42,099	45,693
Total assets less current liabilities	42,099	45,693
Net assets	42,099	45,693
Capital and reserves		
Equity attributable to owners of the Company		
Share capital	3,364	3,364
Reserves	38,735	42,329
Total equity	42,099	45,693

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2022 and signed on its behalf by:

Mr. Fan Baocheng
Director

Mr. Zhou Zhen Dong
Director

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Movement in the Company's reserves

	Share premium RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2020	52,292	5,390	(9,326)	48,356
Loss for the year	–	–	(3,195)	(3,195)
Other comprehensive income for the year	–	(2,832)	–	(2,832)
Loss and total comprehensive expense for the year	–	(2,832)	(3,195)	(6,027)
Balance at 31 December 2020 and 1 January 2021	52,292	2,558	(12,521)	42,329
Loss for the year	–	–	(2,176)	(2,176)
Other comprehensive income for the year	–	(1,418)	–	(1,418)
Loss and total comprehensive expense for the year	–	(1,418)	(2,176)	(3,594)
Balance at 31 December 2021	52,292	1,140	(14,697)	38,735

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Bank borrowings RMB'000	Other borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2021	28,650	7,388	1,339	37,377
Financing cash flows	225	(3,671)	(1,114)	(4,560)
Financing costs recognised	1,775	632	93	2,500
At 31 December 2021	30,650	4,349	318	35,317

	Bank borrowings RMB'000	Other borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2020	27,324	–	164	27,488
New lease entered	–	–	2,389	2,389
Financing cash flows	(384)	7,141	(1,359)	5,398
Financing costs recognised	1,710	247	145	2,102
At 31 December 2020	28,650	7,388	1,339	37,377

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2020, the Group entered into new lease agreement for the use of plant and machinery for two years. On the lease commencement, the Group recognised approximately RMB2,389,000 of right-of-use assets and approximately RMB2,389,000 lease liabilities.

37. SUBSEQUENT EVENTS

Except as disclosed elsewhere in these financial statements, the Group has no event after the end of the reporting period that needs to be brought to the attention of the shareholders of the Company.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years, as extracted from the published consolidated financial statements or the Prospectus of the Company is set out below.

	Results of the Group for the year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**136,981**	120,850	89,099	92,375	97,324
(Loss)/profit before tax	**(4,320)**	(988)	(232)	13,128	6,018
Income tax credit/(expense)	**582**	(74)	(1,113)	(2,687)	(1,845)
(Loss)/profit for the year	**(3,738)**	(1,062)	(1,345)	10,441	4,173

	Assets and liabilities of the Group as at 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**41,966**	46,295	40,713	38,322	33,040
Current assets	**109,685**	118,355	105,928	94,351	73,653
Total assets	**151,651**	164,650	146,641	132,673	106,693
Current liabilities	**71,414**	76,759	62,707	48,939	58,734
Non-current liabilities	**2,669**	6,103	51	51	7,401
Net assets	**77,568**	81,788	83,883	83,683	40,558