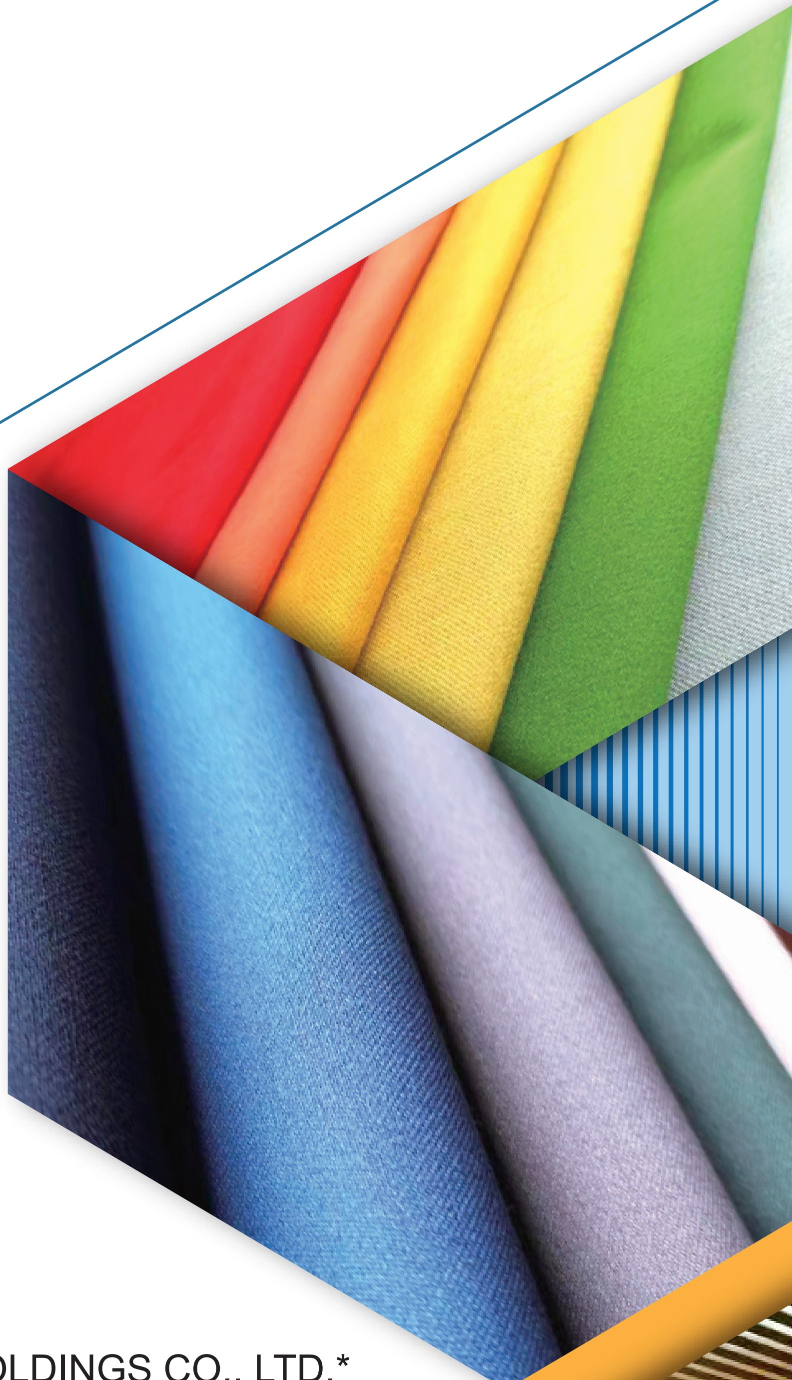
Annual Report 2021



YONGAN HOLDINGS

浙江永安融通控股股份有限公司

ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 8211

* For identification purpose only

CONTENTS

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This document, for which the directors of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd.) (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.*

** English name is for identification only*

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Lou Lijiang *(Chairman of the Board)*
Ms. He Lianfeng *(Chief Executive Officer)*
Mr. Hu Hua Jun

NON-EXECUTIVE DIRECTOR

Mr. Xia Zhenbo *(Deputy Chairman)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Weidong
Mr. Yuan Lingfeng
Mr. Zhang Jianyong

SUPERVISORS

Ms. Wang Ai Yu *(Chairman of Supervisory Committee)*
Mr. Chen Wei

INDEPENDENT SUPERVISOR

Mr. Pan Xing Biao

COMPANY SECRETARY

Ms. Chen Yen Yung — *CPA (Aust.), CPA*

AUDIT COMMITTEE

Mr. Yu Weidong *(Chairman of Audit Committee)*
Mr. Yuan Lingfeng
Mr. Zhang Jianyong

REMUNERATION COMMITTEE

Mr. Yuan Lingfeng *(Chairman of Remuneration Committee)*
Mr. Yu Weidong
Mr. Zhang Jianyong

NOMINATION COMMITTEE

Mr. Zhang Jianyong *(Chairman of Nomination Committee)*
Mr. Yu Weidong
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As to Hong Kong law
Tung & Co
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31 Queen's Road, Central, Hong Kong

STOCK CODE

8211

HIGHLIGHTS

For the year ended 31 December 2021,

— revenue of the Group increased from approximately RMB77.98 million in year 2020 to approximately RMB98.18 million in year 2021, representing an increase of approximately 25.91% when compared to the year ended 31 December 2020;

— loss for the year was approximately RMB18.82 million; and

— the Directors do not recommend the payment of a final dividend for the year ended 31 December 2021.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "**Board**" or the "**Directors**") of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd*) (the "**Company**"), I am pleased to present to our shareholders the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2021.

FINANCIAL PERFORMANCE

For the year ended 31 December 2021, the Group recorded a loss after tax of approximately RMB18.82 million (2020: approximately RMB28.69 million), representing a decrease of approximately RMB9.87 million or 34.4% when compared with the same period in 2020. The Group's basic and diluted loss per share for 2021 was approximately RMB1.77 cents (2020: approximately RMB2.7 cents).

Revenue of the Group increased by approximately RMB20.2 million or 25.91% to approximately RMB98.18 million mainly due to increase of both of domestic and export sales of woven fabrics and subcontracting fee income. The gross profit decreased significantly by approximately RMB1.98 million or 81.46% to approximately RMB0.45 million mainly due to decrease of selling price and increase of cost.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2021.

OUR STRATEGIES GOING FORWARD

2021 was an extraordinarily challenging year, and was also the second year in which the humankind was combating the novel coronavirus ("COVID-19") epidemic. The COVID-19 was effectively under control in the Mainland China, while it was in severe situation in overseas areas. Therefore, textile enterprises in the Mainland China were subject to sustained impact. The medium and high-end textile fabrics for our women's wear and formal wear, which are our main products, were most affected. In addition, customers were more susceptible to change in the price of woven fabrics, and textile business were subject to material and adverse impact due significant volatility in commodity prices. The adverse external environment is a test to the Group, but it propelled the Group to make improvement. The decision makers and front-line employees of the Group are doing their utmost to create value for the Company.

The Group is principally engaged in (i) the manufacture and sale of woven fabrics; (ii) the provision of woven fabrics subcontracting services; (iii) assets management services; and (iv) investment advisory services.

The textile sector is the Group's main business. In 2021, the main difficulties faced by the Group were the continued impact from the COVID-19 and the increase in the production cost due to the substantial increase in the commodity prices, including the increase in the prices of raw materials and electricity prices. The Group took the following measures in response to the external environment mentioned above:

1. Strengthened the research and development of new products through the combination of self-development and collaborative development with customers. The launch of new products entails higher profit and can improve the position of Group in the woven fabrics industry, thus enhancing the image of the Group.

2. Strictly control the inventory level in response to the relatively higher prices of materials, which helped to swiftly recover funds to increase its cash flow and avoid the risk of impairment due to slow moving of inventory.

CHAIRMAN'S STATEMENT

3. Enhanced the responsive capability from purchase to production, and then to sales, and improved efficiency by employing digital management platforms and digital empowerment.

4. Passed the certification of the Global Recycle Standard (GRS), which allows our export sales to enter the supply chain of customers with high quality requirements, thus delivering higher profit.

5. Planned to purchase some new machines and equipment, such as new twisting machines, which are more energy saving and environmentally-friendly, and creates synergies with new rapier looms, fully taking the advantages of the new rapiers.

6. With the implementation of carbon peak and carbon neutral policies and the continued rise in the energy prices, the Group actively discussed with relevant institutions in respect of operations, deployed plant rooftop photovoltaic project, which was in line with national policies and contributed to the reduction in electricity cost.

Our place of domicile, Yangxun Qiao Town Keqiao Qu, Shaoxing, Zhejiang Province, witnessed rapid development in recent years, was connected to Hangzhou through metro line system in 2021, and saw a obvious trend of population influx and fast development in the real estate and infrastructure. Therefore, the Group has established a wholly-owned subsidiary engaging in trading of building materials at the beginning of 2022, aiming at securing the benefit arising from the fast development of the town and increasing the return for the shareholders of the Company, on a prudent basis, while keeping the textile as its main business.

In order to diversify business risk and increase the return on capital investment of the shareholders of the Company, on 20 August 2019, the Company's wholly owned subsidiary, 深圳永安慧聚水務科技有限公司 (Shenzhen Yongan Huiju Water Technology Co., Ltd.*) ("Shenzhen Yongan Huiju") had completed the acquisition of 41.67% of the issued share capital of Beijing Tepia Technology Co., Ltd. ("Tepia"). In 2021, Tepia mainly engaged in small and medium-sized reservoirs as the starting point, focusing on "small water conservancy projects", make full use of existing customers and technology accumulation, for Water Conservancy, Water government customers, to provide small water conservancy project operation and maintenance management scheme design, management system development, equipment installation and commissioning, aerial three-dimensional data, property management, repairs and maintenance.

During the third quarter of 2021, Tepia expanded its business area to the field of industrial circulating water treatment. Through equipment based on electrochemical and electromagnetic mixing physical technology, it solves the problems of industrial circulating water fouling, corrosion, bacteria and algae breeding, and can help customers achieve water saving, energy saving and consumption reduction. The business is mainly aimed at enterprise customers in electric power, chemical industry, iron and steel and machinery manufacturing industries. At present, Tepia has expanded some customers, however due to a certain time lag in equipment delivery and acceptance, income has not yet been confirmed during the year. Despite the operation at loss, Tepia's performance has improved somewhat and it recorded a significant decrease in the management costs and sales costs. The management of Tepia is optimistic about the future prospects of the company.

CHAIRMAN'S STATEMENT

PROSPECTS

The global economy was clouded by the continued impact from the COVID-19 epidemic which was far beyond expectation, leading to an obvious decrease in the demand. At present, woven fabrics for high-end women's wear are actually in a downward cycle and the demand will take long to pick up. Despite an increase in the sales order during the year, the directors expect that there will be still huge market fluctuations in woven fabrics for high-end women's wear. However, we must remain true to our original aspiration and keep our mission firmly in mind at this time of immense difficulties. The Group is committed to maximizing capital return for the shareholders of the Company, providing customers across the world with quality products, and releasing the goal of the long-term sustainable development of the Group. It will resume and even exceed the sales level prior to the COVID-19 epidemic as soon as practicable. The Group will take effective measures to increase sales, reduce costs, increase its liquidity, and make capital expenditure based on its main business.

Considering uncertainties in the future, the Board will carefully execute the plans above to improve profitability, preserve financial strength and enhance the Group's long-term competitiveness. The Board believes that the short-term pressure on profitability is only temporary. The Board is confident that it can overcome the difficulties ahead and create long-term value for our shareholders and deliver the objective to achieve sustainable growth.

APPRECIATION

On behalf of the Board, I wish to extend our appreciation to our customers, vendors, banks and shareholders for their enthusiasm and support, and to every employee for their hard work and dedication to the Group throughout the year.

Lou Lijiang
Chairman

Zhejiang, the PRC, 26 April 2022

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and gross profit

During the year ended 31 December 2021 (the "**Current Period**"), the Group recorded a revenue of approximately RMB98.18 million, representing an overall increase of approximately 25.91% when compared to the same period in 2020 mainly contributed from the respective increase of sales of woven fabrics and subcontracting fee income. The gross profit was approximately RMB450,000 which was mainly contributed from both of domestic and export sales of woven fabrics. Due to the long-lasting outbreak of the novel coronavirus ("**COVID-19**") epidemic (the "**Epidemic**") since 2020, most commercial activities in China and overseas countries were either suspended or seriously affected. Although China successfully stopping the Epidemic from widely few months later after the outbreak in early 2020, the overseas countries continue to be suffered by the Epidemic which caused the decline in demand of the product of the Group from both local and overseas customers. In addition, a substantial appreciation of the renminbi further impacted the unfavorable export in such severe situation. Furthermore, shortage of labour force due to labour structure adjustment led to increase of wages and rise of cost of raw materials continue to impact the Group and the peer manufacturers. As such, both domestic and export sales of woven fabrics of the Group were significantly affected and so do the selling price in export sales of woven fabrics. Furthermore, the COVID-19 epidemic in overseas countries also caused the logistic problems such as delay of transportation time and rise of freight cost.

Other income and gains

Other income and gains increased by approximately RMB2,280,000 or approximately 93.56% during the Current Period when compared to the same period in 2020 mainly contributed from sales of scrap materials, gain on disposal of old production machinery and fair value gain on financial assets at FVTPL.

Selling and distribution cost

Selling and distribution cost increased by approximately RMB454,000 or approximately 35.03% during the Current Period when compared to the same period in 2020 mainly due to an increase of transportation expenses and exhibition expenses during the Current Period.

Administrative expenses

Administrative expenses increased by approximately RMB1,569,000 or approximately 9.34% during the Current Period when compared to the same period in 2020 mainly due to an increase of staff salaries in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Share of result of an associate

Share of result of an associate of approximately RMB5,908,000 represents the share of loss from the consolidated result of the associate, Beijing Tepia Technology Co., Ltd.* (北京太比雅科技股份有限公司) ("**Tepia**") and its subsidiaries ("**Tepia Group**"). Tepia incorporated in the PRC and is listed on the NEEQ (Stock Code: 838941) which the Group has acquired an interest in 41.67% since 20 August 2019. Share of result of an associate decreased by approximately RMB1,515,000 or approximately 20.41% for the Current Period when compare with the same period in 2020, mainly due to cost control implemented during the Current Period. During the Current Period, the revenue of Tepia decreased by approximately RMB8,253,000 or approximately 22.51% when compared to the same period in 2020 as some of the projects could not be carried out or completed as planned in 2020 and 2021 due to the outbreak of the Epidemic in China in early 2020 and the sporadic outbreaks in 2021. Due to the outbreak of the Epidemic and the restriction of social distancing, the government's bidding time also has been delayed accordingly in 2021. During the Current Period, Tepia mainly continued to undergo the projects from 2019 and 2020. In addition, due to the disposal of a subsidiary in Guangdong in June 2021, only half-year of the results of the subsidiary was consolidated by Tepia Group for the year ended 31 December 2021. During Current Period, selling expenses decreased by approximately RMB1,032,000 or 8.67% when compared to the same period in 2020 mainly due to a decrease in staff salary. Administrative expenses decreased by approximately RMB6,534,000 or approximately 40.05% when compared to the same period in 2020 mainly due to a decrease in the impairment of expected credit loss.

Finance cost

Finance cost of approximately RMB2,017,000 for the Current Period represents imputed interest in interest free loan due to immediate holding company, 貴州永利企業管理有限公司 (Guizhou Yongli Enterprise Management Co., Ltd.*) ("**Guizhou Yongli**") (formerly known as 貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Ltd.*)). In April 2020, the Company repaid RMB11 million to Guizhou Yongli and on 30 November 2020, the Company entered into a supplemental debt agreement (the "**Supplemental Debt Agreement**") with Guizhou Yongli. Due to the Supplement Debt Agreement, the interest free loan has been modified according to HKFRS 9, details of which were disclosed in annual report for the year ended 31 December 2020. The respective imputed interest immediately before and after 30 November 2020 on the advance had been computed at an effective interest rate of 18.22% and 12.42% (January 2020 to June 2020: 18.22%). In this regard, the finance cost for the Current Period decreased significantly by approximately RMB4,570,000 or approximately 69.38% when compared to the same period in 2020.

Loss for the year

Loss for the Current Period was approximately RMB18,820,000, decreased by approximately RMB9,871,000 or 34.4% when compared to the same period in 2020 mainly due to decrease in share of result of an associate and finance cost as explained above.

Loss per share

The respective loss per share for the Current Period and 2020 were approximately RMB1.77 cents and approximately RMB2.7 cents respectively.

Interest in an associate

Interest in an associate of approximately RMB40.67 million which represents the 41.67% of interest in Tepia as at 31 December 2021, decreased by approximately RMB5.91 million when compared with the balance as at 31 December 2020 mainly due to share of result of an associate of approximately RMB5.91 million for the year ended 31 December 2021, details of which were discussed under the previous paragraph "share of result of an associate".

Inventories

At 31 December 2021 inventories was approximately RMB27.97 million (31 December 2020: approximately RMB35.51 million) which representing aggregation of inventories in various status being raw materials, working-in-progress and finished good of woven fabrics. Raw materials as at 31 December 2021 decreased by RMB454,000 or 25.36% when compared with balance as at 31 December 2020 mainly due to tighter stock turnover control was applied. Finished good of woven fabrics as at 31 December 2021 decreased by approximately RMB10.13 million or approximately 40.41% when compared with balance as at 31 December 2020 mainly due to increase of both domestic and overseas sales near the year ended 31 December 2021. Work-in-progress as at 31 December 2021 increased by approximately RMB3.05 million or approximately 35.31% when compared with that as at 31 December 2020 mainly due to increase of production volume in order to meet the increase of sales orders.

Trade and other receivables

At 31 December 2021, trade and other receivables was approximately RMB33.23 million (31 December 2020: approximately RMB29.94 million) increased by approximately RMB3.29 million or approximately 10.97% when compared with that at 31 December 2020 mainly due to (i) trade receivables increased by approximately RMB81,000 or approximately 0.35% mainly due to increase of sales since the second quarter of 2021; and (ii) prepayment to suppliers increased by approximately RMB7.02 million or approximately 316.55% as more purchase orders on raw materials were made so as to meet the increasing of production volume.

Bank balances and cash

Bank balances and cash as at 31 December 2021, was approximately RMB30.97 million (31 December 2020: approximately RMB31.64 million), representing a drop of approximately RMB667,000 when compared with that as at 31 December 2020 mainly due to prepayment to suppliers increased.

Trade and other payables

Trade and other payables as at 31 December 2021 was approximately RMB20.55 million (31 December 2020: approximately RMB17.63 million), representing an increase of approximately RMB2.92 million or approximately 16.57% mainly due to the increase in the purchase of raw materials in order to meet the increase in production volume during the year ended 31 December 2021.

Contract liabilities

Contract liabilities representing receipt in advance from customers as at 31 December 2021 was approximately RMB7.95 million (31 December 2020: approximately RMB8.59 million), representing a decrease of approximately RMB642,000 or approximately 7.48% mainly due to the increase of sales orders since the second quarter of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Deferred income

Deferred income as at 31 December 2021 was approximately RMB1.19 million (31 December 2020: approximately RMB1.35 million) represents part of the government subsidy of approximately RMB1,589,000 which was received by the Group in 2020 for encouraging the replacement of low productivity machinery and equipment. The amount of approximately RMB1,589,000 has been recognised as deferred income and transferred to other income over the useful lives of the relevant assets. During the year ended 31 December 2021, an amount of approximately RMB159,000 (31 December 2020: approximately RMB239,000) was credit to the other income in the current period according to this policy. As at 31 December 2021, the amount of approximately RMB1.19 million, (2020: approximately RMB1.35 million) remains to be amortised.

Amount due to immediate holding company

Amount due to immediate holding company, Guizhou Yongli as at 31 December 2021 was approximately RMB18.25 million (31 December 2020: approximately RMB16.24 million), representing an increase of approximately RM2.02 million or 12.42% mainly due to effect of imputed interest during the year ended 31 December 2021, details of which were discussed in the above paragraph of "**finance cost**".

BUSINESS AND OPERATION REVIEW

Manufacture and sales of woven fabrics and provision of woven fabrics subcontracting services

The textile sector is the Group's main business. During the Current Period, both domestic and export sales of woven fabrics increased by approximately RMB18.33 million or approximately 24.47% and subcontracting fee income also increased by approximately RMB2.17 million or approximately 78.88% mainly due to commercial activities has been resumed as normal in China in 2021 after China has successfully stopped the Epidemic widely after few months since the outbreak of COVID-19 in early January 2020 in China. However, the long-lasting outbreak of the Epidemic in some overseas countries since 2020 and the rise of tension between China and the U.S. continued to impact to the export sales of the Group. In addition, the appreciation of the renminbi in 2020 also impact the unfavorable export in such severe situation. Furthermore, the shortage of labour force due to the labour structure adjustment continues to impact the Group and the peer manufacturers. In this regard, the Group has continued to implement various measures and actions including the development of new sales channels for increasing the exposure of the Group's product to potential customers and research and development of the new and high-quality products so as to attract high profile customers, etc. In addition, further to the launch of the COVID-19 vaccines and increase of the vaccination population globally, the Directors expect that the business environment ahead will continue to be tough and uncertain as many countries are still being exposed to the risk of having a new wave of coronavirus outbreak. Due to the expectation that the challenging business environment may persist at least in the coming few quarters, the Group understands that it is important to preserve its financial strength. In this regard, measures will continue to be carried out to increase efficiency, reduce cost and improve liquidity.

MANAGEMENT DISCUSSION AND ANALYSIS

Water management-related business by associates

In 2021, Tepia mainly engaged in small and medium-sized reservoirs as the starting point, focusing on "small water conservancy projects", make full use of existing customers and technology accumulation, for Water Conservancy, Water government customers, to provide small water conservancy project operation and maintenance management scheme design, management system development, equipment installation and commissioning, aerial three-dimensional data, property management, repair and maintenance. Tepia's performance in 2021 has further improved somewhat from the previous year. During the reporting period, Tepia expanded its business area to the field of industrial circulating water treatment. Through equipment based on electrochemical and electromagnetic mixing physical technology, it solves the problems of industrial circulating water fouling, corrosion, bacteria and algae breeding, and can help customers achieve water saving, energy saving and consumption reduction. The business is mainly aimed at enterprise customers in electric power, chemical industry, iron and steel and machinery manufacturing industries. At present, Tepia has expanded some customers, however due to a certain time lag in equipment delivery and acceptance, income has not yet been confirmed during the Current Period.

Production Facilities

During the year ended 31 December 2021, the Group spent approximately RMB261,000 (2020: RMB123,000) for renovation of factory buildings and additions of office equipment.

Product research and development

During the year ended 31 December 2021, the Group continued to innovate and develop new products for meeting the customers' need and enhancing sales orders from customers.

Sales and marketing

During the year ended 31 December 2021, the Group actively participated in various trade fairs held in PRC so as to gain exposure in the fabrics market and to popularise the Group's new products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year ended 31 December 2021, the Group financed its operations mainly by internally generated cash and financial support from the immediate holding company, Guizhou Yongli.

As at 31 December 2021, the Group's current assets and net current assets were approximately RMB92.17 million (31 December 2020: approximately RMB97.09 million) and approximately RMB63.18 million (31 December 2020: approximately RMB70.38 million) respectively. The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was approximately 3.18 (31 December 2020: approximately 3.64). The Group's gearing ratio, represented by the ratio of the interest free loan due to immediate holding company over shareholders' equity, was approximately 8.25% (2020: 6.81%).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS AND SIGNIFICANT INVESTMENTS

As at 31 December 2021, the Group did not have any capital commitments (2020: nil) and significant investments held (2020: nil).

MATERIAL DISPOSALS

During the year ended 31 December 2021, the Group did not have any material disposal. (31 December 2020: a wholly owned subsidiary with an original investment cost of RMB10,000,000 was disposed, details of which was discussed in the annual report for the year ended 31 December 2020.)

SEGMENT INFORMATION

Segment information of the Group is set out in note 9 to the consolidated financial statements.

CONTINGENT LIABILITIES

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

CHARGES ON GROUP ASSETS

As at 31 December 2021 and 2020, the Group did not have any charges on assets.

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2021, the Group had 281 employees (31 December 2020: 312), comprising 3 (31 December 2020: 2) in research and development, 9 (31 December 2020: 3) in sales and marketing, 218 (31 December 2020: 256) in production, 30 (31 December 2020: 38) in quality control, 5 (31 December 2020: 5) in management, and 16 (31 December 2020: 8) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

The Group operates in the PRC with most of the transactions denominated and settled in Renminbi ("**RMB**"). However, foreign currencies, mainly United States Dollars, Euro and Hong Kong Dollars, are required to settle the Group's expenses and additions on plant and equipment. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government, if necessary, the Group will use forward contracts, foreign currency borrowings and other means to hedge its foreign currency exposure. The Group considers it has no material foreign exchange risk.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Lou Lijiang (婁利江先生) ("Mr. Lou"), aged 34, is currently the Chairman and executive Director of the Company and is responsible for the strategic planning, corporate investment and overall management of the Company. He graduated from Zhejiang Institute of Finance and Economics (currently named Zhejiang University of Finance and Economics) (浙江財經學院(目前名稱為浙江財經大學)) with the bachelor's degree in Insurance in June 2010. From May 2011 to December 2015, he worked at the loan department of Shaoxing Keqiao Yongli Small Loan Co., Ltd.* (紹興市柯橋區永利小額貸款股份有限公司), a subsidiary of Zhejiang Yongli and with the last position as a deputy general manager. From January 2016 to December 2020, he worked as a general manager of the investment department of Zhejiang Yongli. In January 2021, he joined the Company and is working as a deputy general manager of the Company. Mr. Lou has been appointed as an executive Director of the Company at the extraordinary general meeting held on 30 July 2021 and elected as a Chairman of the Board on the same day.

Ms. He Lianfeng (何連鳳女士), ("Ms. He"), aged 48, is currently an executive Director, Chief Executive Officer and a general manager of the Company. She is responsible for the sales and production of the Company. Before joining the Company, she acted as the workshop director of Zhejiang Yongli Warp Knitting Co. Ltd. from January 1990 to July 2007, the general manager assistant of Zhejiang Yongli Warp Knitting Co. Ltd. from August 2007 to February 2013. She is familiar with the trends of textile market in the PRC and has gained more than 30 years of valuable experience in production management in textile enterprises. In March 2013, she joined the Company as the deputy general manager and was appointed as executive Director and elected as deputy Chairman on 10 Mar 2014. She resigned as a deputy Chairman of the Board on 28 February 2017. Ms. He has been re-appointed as executive Director at the annual general meeting held on 15 May 2019.

Mr. Hu Hua Jun (胡華軍先生) ("Mr. Hu"), aged 36, is currently an executive Director of the Company. He is responsible for all secretarial work of the Chairman and the routine management of administrative department. Prior to joining the Company, Mr. Hu worked in the finance department and the general manager's office of Zhejiang Yongli from July 2008 to May 2010 and from May 2010 to December 2010, respectively. He received a bachelor degree in Accounting at Economics and Management Faculty in University of South China, Hunan (湖南南華大學). He joined the Company in December 2010 and was re-appointed as an executive Director at the AGM held on 18 May 2021.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Xia Zhenbo (夏震波先生) ("Mr. Xia"), aged 34, is currently a deputy Chairman and a non-executive Director of the Company. He graduated from the University of Wales, Bangor with the degree of Master of Science in Banking and Finance in September 2011. From October 2011 to September 2018, he worked successively as an officer at the corporate finance department and administrative department of Zhejiang Yongli Industrial Group Co., Ltd.* (浙江永利實業股份有限公司) ("**Zhejiang Yongli**"), the ultimate holding company of the Company. In July 2019, he joined Guizhou Yongli, the immediate holding company of the Company as a financial controller. As at the date of this document, Mr. Xia is beneficially interested in 640,000 H Shares. Mr. Xia has been appointed as a non-executive Director of the Company at the EGM held on 6 January 2022 and elected as a deputy Chairman of the Board on the same day.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Weidong (余偉東先生) ("Mr. Yu"), aged 53, is currently an independent non-executive Director of the Company. graduated from Zhejiang Institute of Finance and Economics (浙江財經學院) with the bachelor's degree in Accountancy in July 2001. From July 1992 to December 1999, Mr. Yu worked as an audit officer of Shaoxing County Audit Office, a department under Shaoxing City Audit Bureau (紹興縣審計事務所(紹興市審計局屬下之部門)). From December 1999 to December 2017, he served as vice director of Shaoxing Xingye CPA Firm* (紹興興業會計師事務所). Since December 2017, he has been a director of Shaoxing Zhongjing CPA Firm* (紹興中景會計師事務所). Mr. Yu has been granted a certificate of senior accountant (高級會計師) in December 2003. He has registered as a Chinese Certified Public Accountant (中國註冊會計師) since February 1998, as a Chinese Certified Valuer (中國註冊評估師) since June 1998 and as a Chinese Certified Tax Agent (中國註冊稅務師) since June 1999. He is now a practising Chinese Certified Public Accountant. He has been appointed as an independent non-executive Director of the Company at the extraordinary general meeting held on 30 July 2021.

Mr. Zhang Jianyong (章建勇先生) (formerly named Zhang Jianyong (章劍勇)) ("Mr. Zhang"), aged 55, is currently an independent non-executive Director of the Company. He graduated from Hangzhou City Law School* (杭州市法律學校) (currently named Hangzhou Normal University* (杭州師範大學)) with a certificate of professional in law in July 1990. He also graduated from the online education faculty of Southwest Jiaotong University (西南交通大學) with a certificate of professional in law in January 2007. From July 1990 to May 1996, Mr. Zhang worked as a clerk at the legal department of the People's Government of Meishan Village Yuecheng Qu, Shaoxing City* (紹興市越城區梅山鄉人民政府). From June 1996 to August 2000, he worked as a lawyer of Yueshao (Shaoxing) Law Firm* (越紹(紹興)律師事務所). From September 2000 to October 2010, he served as a senior partner of Zhejiang Tianyun Law Firm* (浙江天銳律師事務所). Since October 2010, he has been a senior partner of Zhejiang Jianhu Law Firm* (浙江鑒湖律師事務所). Mr. Zhang was granted a certificate as a Chinese Lawyer (中國律師) in April 1994 and has been registered as a practising Chinese Lawyer since June 1996. He is now a practising Chinese Lawyer (中國執業律師). He has been appointed as an independent non-executive Director of the Company at the extraordinary general meeting held on 6 January 2022.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yuan Lingfeng (袁靈烽先生) ("Mr. Yuan"), aged 38, is currently an independent non-executive Director of the Company. He graduated from Shaoxing University (紹興文理學院) with the bachelor's degree in Accountancy in June 2006. From July 2006 to March 2021, Mr. Yuan worked as a finance officer of Zhejiang Baoye Construction Group Co., Ltd.* (浙江寶業建設集團有限公司). Since March 2021, he has served as a deputy finance manager of Zhejiang Dongsha Construction Group Ltd.* (浙江東廈建工集團有限公司). Mr. Yuan has been granted a certificate of senior accountant (高級會計師) in December 2019. He has been appointed as an independent non-executive Director of the Company at the extraordinary general meeting held on 30 July 2021.

INDEPENDENT SUPERVISOR

Mr. Pan Xing Biao (潘興彪先生) ("Mr. Pan"), aged 56, is an independent supervisor of the Company ("**Supervisor**"). He is a certified public accountant and certified tax accountant. Mr. Pan graduated in Financial Accounting major from 浙江台州供銷學校(Zhejiang Taizhou Supply and Marketing School*) in July 1985. He worked as the chief accountant of 紹興縣畜產品有限公司 (Shaoxing Livestock Product Co., Ltd.*) from August 1985 to April 1990, 紹興縣土特產有限公司 (Shaoxing Native Products Co., Ltd.*) from May 1990 to September 1991, 紹興縣供銷貿易有限公司 (Shaoxing Supply and Marketing Trade Co., Ltd.*) from October 1991 to December 1994 and 紹興縣化纖供應有限公司 (Shaoxing Chemical Fiber Supply Co., Ltd.*) from January 1995 to June 1997. He worked as a department head at 紹興縣第一稅務師事務所 (Shaoxing First Tax Accountant Office*) from July 1997 to December 1999 and has been a director of 紹興益地稅務師事務所 (Shaoxing Yidi Tax Accountant Office*) since January 2000. He was re-appointed as an independent Supervisor of the Company at the annual general meeting held on 15 May 2021.

SUPERVISORS

Ms. Wang Ai Yu (王愛玉女士) ("Ms. Wang"), aged 58, is a Supervisor of the Company. She is currently an audit manager of the internal audit department of Zhejiang Yongli. Ms. Wang was a teacher of 楊汛橋中心小學 (Yangxunqiao Zhongxing Primary School*) in Shaoxing County from February 1979 to January 1980 and working in the accounting department of 紹興市蜜餞廠 (Shaoxing County Mijian Factory*) from February 1980 to February 1987. She has acted as an internal audit manager of Zhejiang Yongli since February 1987. Ms. Wang has an extensive experience in finance and is well versed of the national taxation law, the accounting rules and the relevant finance, taxation, audit rules and policies. She is good at analysis and has accumulated substantial experience in data analysis, capital operation from different finance projects. She has established a set of comprehensive rules and regulations for internal control for Zhejiang Yongli in order to reduce the investment risk of the enterprises. She also has standardised the audit method for the corporate finance of and enhanced the quality of financial information, thereby enhancing the supervision in finance and accounting. She graduated from Chong Qing University. She was re-appointed as a Supervisor of the Company by the annual general meeting held on 15 May 2019 and a chairman of the Supervisory Committee.

Mr. Chen Wei (陳偉先生) ("Mr. Chen"), aged 40, is a Supervisor of the Company. He is currently the manager of the production department of the Company since March 2015. Mr. Chen was a workshop supervisor in 浙江偉創紡織有限公司 (Zhejiang Wei Chuang Textiles Company Limited*) from 1998 to January 2006 and a production manager in 萬邦紡織有限公司 (Wan Bang Textiles Company Limited*) from 2006 to 2007. He was re-appointed as a Supervisor of the Company on 18 May 2021.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2021.

PRINCIPAL ACTIVITY

The Group is principally engaged in (i) the manufacture and sale of woven fabrics; (ii) the provision of woven fabrics subcontracting services; (iii) assets management services; and (iv) investment advisory services.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 47 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2021.

PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2021, the Group spent approximately RMB261,000 (2020: RMB123,000) for the renovation of factory buildings and additions of office equipment.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business and the related analysis of the Group's performance are set out in the section of "Management Discussion and Analysis" on page 10.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS OF THE COMPANY

The Directors and supervisors of the Company during the year ended 31 December 2021 and up to the date of this report are:

Executive Directors:

Mr. Lou Lijiang	*(Chairman) (appointed on 30 July 2021)*
Mr. Xia Zhenbo	*(Deputy Chairman) (appointed on 6 January 2022)*
Ms. He Lianfeng	*(Chief Executive Officer)*
Mr. Hu Hua Jun	
Mr. Wang Hengzhuang	*(Chairman) (resigned on 30 July 2021)*
Mr. Ma Jinsong	*(Deputy Chairman) (resigned on 6 January 2022)*

DIRECTORS' REPORT

Independent Non-Executive Directors:

Mr. Yu Weidong	*(appointed on 30 July 2021)*
Mr. Yuan Lingfeng	*(appointed on 30 July 2021)*
Mr. Zhang Jianyong	*(appointed on 6 January 2022)*
Mr. Leng Peng	*(resigned on 30 July 2021)*
Mr. Zhu Weizhou	*(resigned on 6 January 2022)*
Ms. Wu Yuejuan	*(resigned on 30 July 2021)*

Supervisors:

Ms. Wang Ai Yu	*(chairman of supervisory committee)*
Mr. Chen Wei	

Independent Supervisors:

Mr. Pan Xing Biao

Each of the Directors and Supervisors (including the non-executive Director, independent non-executive Directors and independent Supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the Directors and Supervisors was appointed as a director and supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant services contracts.

In accordance with the provisions of the Company's articles of association, the Directors and Supervisors acting for the shareholders are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment. None of the Directors who are proposed for re-election at the forthcoming annual general meeting to be held on 17 June 2022 has a service contract with the Company, which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for termination of executive Directors and independent non-executive Directors' contracts by either party is not less than three months.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2021, Ms. He Lianfeng, an executive Director and her spouse totally have approximately 0.38% of interest in Zhejiang Yongli, the ultimate holding company of the Company. Mr. Ma Jinsong through indirect holding of interest in Guizhou Yongli has 0.0498% interest in the Company. He is also a director and the deputy general manager of Guizhou Yongli. Ms. Wang Ai Yu, a Supervisor, is a manager of the internal audit department of Zhejiang Yongli. Zhejiang Yongli and Guizhou Yongli are associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("**SFO**")) by virtue of being a holding company of the Company.

Save as disclosed above, as at 31 December 2021, none of the Directors, Supervisors or chief executives of the Company had any interests or 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) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

ARRANGEMENTS TO PURCHASE H SHARES OR DEBENTURES

At no time during the year ended 31 December 2021 was the Company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and neither the Directors nor the Supervisors, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 14 to the consolidated financial statements, no other contracts of significance to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2021.

CONNECTED TRANSACTIONS

Save as disclosed in note 31 to the consolidated financial statements and except for the failure by the Company to comply with the full disclosure and shareholders' approval requirements under the GEM Listing Rule in respect of the provision of a revolving loan in the principal amount of up to RMB35 million for Zhejiang Yongli during the period from 1 January 2021 to 31 March 2022 which were due to the oversight of the Company, there were no other transactions that need to be disclosed as "Connected Transactions" or "Continuing Connected Transactions" under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholder's approval requirements under Chapter 20 of the GEM Listing Rules. The revolving loan advances by the Company to Zhejiang Yongli constituted connected transactions under Chapter 20 of the GEM Listing Rules and should have been disclosed by way of announcement and circular and should have been approved by independent shareholder of the Company. The Company entered into a revolving loan agreement with Zhejiang Yongli on 31 March 2022 to confirm the revolving loan advanced by the Company to Zhejiang Yongli and will arrange for it to be approved by the independent shareholders of the Company. Details of the transactions of the revolving loan between the Company and Zhejiang Yongli were disclosed in the announcement of the Company dated 31 March 2022.

The independent non-executive Directors have reviewed the connected transactions set out in note 31 to the consolidated financial statements and in their opinion, these transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable than terms available to/from independent third parties; and

(iii) carried out in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, so far as it is known to the Directors or chief executive or Supervisors of the Company, the interests and short positions of person in the shares or underlying shares of the Company, other than the interest of the Directors or Supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested directly or indirectly in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

Long positions in the shares of the Company
Domestic shares of the Company ("Domestic Shares")

Name of shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic Shares in issue as at 31 December 2021	Approximate percentage of interests in total issued shares as at 31 December 2021
Guizhou Yongli	Beneficial owner (Note)	588,000,000	100.00%	55.29%
Zhejiang Yongli	Interest in controlled corporation (Note)	588,000,000	100.00%	55.29%
Mr. Zhou Yongli	Interest in controlled corporation (Note)	588,000,000	100.00%	55.29%
Ms. Xia Wanmei	Interest of spouse (Note)	588,000,000	100.00%	55.29%

Notes:

(1) On 8 April 2021, the Company received a notice from Guizhou Yongli that 588,000,000 Domestic Shares has been pledged to an independent third party, China Zheshang Bank Co., Ltd., Shaoxing Branch ("**CZ Bank**") as a security for a loan of RMB50 million as provided by CZ Bank to Zhejiang Yongli, details of which were disclosed in the announcement dated 8 April 2021 of the Company. As at the date of this document, the 588,000,000 Domestic Shares still have been pledged to CZ Bank for security of the bank loan granted to Zhejiang Yongli.

(2) Mr. Zhou Yongli and his spouse, Ms. Xia Wanmei own approximately 94.25% and approximately 3.49% in Zhejiang Yongli respectively. Zhejiang Yongli owns 65% in Guizhou Yongli. Mr. Zhou Yongli and Ms. Xia Wanmei are therefore deemed to be interested in the 588,000,000 domestic shares of the Company held by Guizhou Yongli, representing 55.29% of the total issued share capital of the Company.

DIRECTORS' REPORT

H shares of RMB0.1 each of the Company ("H Shares")

Name of shareholder	Capacity	Number of H Shares held	Approximate percentage of interests in H Shares in issue as at 31 December 2021	Approximate percentage of interests in total issued shares as at 31 December 2021
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,530,000	43.85%	19.61%

Save as disclosed above, as at 31 December 2021, so far as was known to the Directors, chief executives and Supervisors of the Company, no other person (other than the Directors, chief executives or Supervisors of the Company) has an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

During the year ended 31 December 2021, none of the Directors, Supervisors, the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interest in any business which competes or is likely to complete, directly or indirectly with the business of the Group or any other conflicts of interest with the Group.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2021, the five largest suppliers and customers of the Group accounted for approximately 50.83% and 30.12% of the Group's purchases and revenue respectively. The largest supplier and customer accounted for approximately 28.11% and 9.59% of the purchases and revenue of the Group respectively.

At no time during the year did a Director, a Supervisor, an associate or a shareholder of the Company, which to the knowledge of the Directors, own more than 5% of the Company's issued share capital, have any interest in the share capital of any of the five largest suppliers or customers of the Group.

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

Neither the Company nor its subsidiaries purchase, sell or redeem any of the Company's listed securities during the year ended 31 December 2021.

DIRECTORS' REPORT

ENVIRONMENTAL POLICIES AND PERFORMANCE

Pursuant to Appendix 20 Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") of the GEM Listing Rules, the Group is required to prepare an ESG Report, which explains the management approaches, strategies, policies, measures taken and results of its activities on environmental and social areas and aspects, and evaluate their impact on the sustainable development of the environment and society.

Since the Company has been established in 2002, it has been working towards developing itself as an international leader in woven fabrics design, manufacture and sale. The Group's objectives are to bring new technology and products to fashion industries, returns to its investors, shareholders and employees, and positive contributions to the environment and society. The Group has adopted and implemented the strategies, policies, rules and regulations in relation to the environmental and social areas and aspects of the ESG Guide with responsibility and a high Code of Standards, which can be summarised in the first ESG report dated and published on 28 June 2017. After that the Company has published various ESG report for further disclosure of Aspect A1 emissions matters as required under the ESG Guide since 2018 to 2021. A separate and updated ESG report for updating disclosure of Aspect A1 emission matters will be published on the Stock Exchange's website and the Company's website no later than five months after the financial year ended 31 December 2021, i.e. it will be published before 31 May 2022.

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") in May 2002 and the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Yue Weidong ("**Mr. Yue**"), Mr. Yuan Lingfeng ("**Mr. Yuan**") and Mr. Zhang Jianyong ("**Mr. Zhang**"). Mr. Yue and Mr. Yuan were appointed as member of Audit Committee on 30 July 2021 for taking up the position of Mr. Leng Peng and Ms. Wu Yuejuan respectively due to their resignation on 30 July 2021. Mr. Zhang was appointed as a member of the Audit Committee on 6 January 2022 for taking up the position of Mr. Zhu Weizhou due to his resignation on 6 January 2022. Mr. Yue Weidong is chairman of the Audit Committee.

The first quarterly results for the three months ended 31 March 2021, the interim results for the six months ended 30 June 2021, the third quarterly results for the nine months ended 30 September 2021 and the annual results of the Company for the year ended 31 December 2021 have been reviewed by the Audit Committee.

EMOLUMENT POLICY

The Company has established a remuneration committee (the "**Remuneration Committee**") in January 2005 and the primary duties of the Remuneration Committee are to formulate and make recommendations to the Board on the Company's policy and structure for all the remuneration of the Directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration. The Remuneration Committee comprises three independent non-executive Directors, Mr. Yue Weidong ("**Mr. Yue**"), Mr. Yuan Lingfeng ("**Mr. Yuan**") and Mr. Zhang Jianyong ("**Mr. Zhang**"). Mr. Yue and Mr. Yuan were appointed as member of the Remuneration Committee on 30 July 2021 for taking up the position of Mr. Leng Peng and Ms. Wu Yuejuan respectively due to their resignation on 30 July 2021. Mr. Zhang was appointed as a member of the Remuneration Committee on 6 January 2022 for taking up the position of Mr. Zhu Weizhou due to his resignation on 6 January 2022. Mr. Yuan Lingfeng is chairman of the Remuneration Committee.

DIRECTORS' REPORT

NOMINATION COMMITTEE

The Company has established a nomination committee (the "**Nomination Committee**") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code on 31 March 2012. The primary duties of the Nomination Committee are to make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors. During the year ended 31 December 2021, the Nomination Committee comprised three independent non-executive Directors, Mr. Yue Weidong ("**Mr. Yue**"), Mr. Yuan Lingfeng ("**Mr. Yuan**") and Mr. Zhang Jianyong ("**Mr. Zhang**"). Mr. Yue and Mr. Yuan were appointed as a member of the Nomination Committee on 30 July 2021 for taking up the position of Mr. Leng Peng and Ms. Wu Yuejuan respectively due to their resignation on 30 July 2021. Mr. Zhang was appointed as a member of the Nomination Committee on 6 January 2022 for taking up the position of Mr. Zhu Weizhou due to his resignation on 6 January 2022. Mr. Zhang Jianyong is chairman of the Nomination Committee.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements for the year ended 31 December 2021 were audited by SHINEWING (HK) CPA Limited ("**SHINEWING**").

A resolution will be submitted to the forthcoming annual general meeting to be held on 17 June 2022 to re-appoint SHINEWING as an international auditor and 浙江中興會計師事務所有限公司 (Zhejiang Zhongxing CPA Company Limited*) ("**Zhejiang Zhongxing**") as a domestic auditor of the Group.

On behalf of the Board of
Zhejiang Yongan Rongtong Holdings Co., Ltd.*

Lou Lijiang
Chairman

Zhejiang, the PRC, 26 April 2022

SUPERVISORS' REPORT

To: All Shareholders

We are the supervisory committee ("**Supervisory Committee**") of Zhejiang Yongan Rongtong Holdings Co., Ltd.*, in accordance with the company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "**Articles of Association**") during the year ended 31 December 2021, exercised conscientiously its authority, safeguarded the interest of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

The Supervisory Committee followed strictly the relevant regulations and carried out its duties honestly, including strengthening internal management and control of the Group, enforcing strict execution of various approval procedures, hiring professional consultation bodies, if necessary, standardising different aspect of management, conducting strict and effective monitoring of various significant decision making process and concrete decisions as to whether or not they comply with state laws and regulations and the Company's articles of association, whether or not shareholder's interests are protected etc., preventing abuse of authority by our senior management.

After review, we consider that the consolidated financial statements of the Group for the year ended 31 December 2021, audited by the auditor, SHINEWING, truly and sufficiently reflects the operating results and asset positions of the Group. The Committee also reviewed the Report of the Board of Directors and the Corporate Governance Report and considers that the reports meet the requirements of the relevant regulations and Articles of Association.

We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, working diligently and acting sincerely in the best interest of the Group. None of the Directors, general manager and the officers have abused their powers, caused damage to the interests of the Group and infringed upon the interests of the Group and its staff, nor have they violated any laws, regulations or the Company's Articles of Association except for the failure by the Company to comply with the full disclosure and independent shareholders' approval requirements under the GEM Listing Rules in respect of the provision of a revolving loan in the principal amount of up to RMB35 million for Zhejiang Yongli during the period from 1 January 2021 to 31 March 2022, which were due to the oversight of the Company. The revolving loan advanced by the Company to Zhejiang Yongli constituted connected transactions under Chapter 20 of the GEM Listing Rules and should have been disclosed by way of announcement and circular and should have been approved by independent shareholders of the Company. The Company entered into a revolving loan agreement with Zhejiang Yongli on 31 March 2022 to confirm the revolving loan advanced by the Company to Zhejiang Yongli and will arrange for it to be approved by the independent shareholders of the Company. Details of the transactions of the revolving loan between the Company and Zhejiang Yongli were disclosed in the announcement of the Company dated 31 March 2022.

By order of the Supervisory Committee of
Zhejiang Yongan Rongtong Holdings Co., Ltd. *

Wang Ai Yu
Chairman of the Supervisory Committee

Zhejiang, the PRC, 26 April 2022

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2021, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "**Code Provision**") as set out in the Appendix 15 of GEM Listing Rules except for the failure by the Company to comply with the full disclosure and independent shareholders' approval requirements under the GEM Listing Rules in respect of the provision of a revolving loan in the principal amount of up to RMB35 million for Zhejiang Yongli during the period from 1 January 2021 to 31 March 2022, which were due to the oversight of the Company. The revolving loan advanced by the Company to Zhejiang Yongli constituted connected transactions under Chapter 20 of the GEM Listing Rules and should have been disclosed by way of announcement and circular and should have been approved by independent shareholders of the Company. The Company entered into a revolving loan agreement with Zhejiang Yongli on 31 March 2022 to confirm the revolving loan advanced by the Company to Zhejiang Yongli and will arrange for it to be approved by the independent shareholders of the Company. Details of the transactions of the revolving loan between the Company and Zhejiang Yongli were disclosed in the announcement of the Company dated 31 March 2022.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transaction by Directors and Supervisors on terms no less exacting than the required standard of securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors and Supervisors, all Directors and Supervisors of the Company confirmed that they had complied with the required standard and the code of conduct regarding securities transactions by Directors and Supervisors adopted by the Company.

SENIOR MANAGEMENT'S AND STAFF'S SECURITIES TRANSACTIONS

Senior management and those staff who are more likely to be in possession of inside information in relation to the securities of the Company have adopted the Dealing Rules. These senior management and staff have been individually notified and provided with a copy of the Dealing Rules.

BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group affairs.

The Board currently comprises three executive Directors, namely Mr. Lou Lijiang (Chairman), Ms. He Lianfeng (Chief Executive Officer) and Mr. Hu Hua Jun; and a non-executive Director, Mr. Xia Zhenbo (Deputy Chairman) and three independent non-executive Directors (representing a least one-third of the Board), namely Mr. Yue Weidong, Mr. Yuan Lingfeng and Mr. Zhang Jianyong. Their brief biographical details are set out in the "Directors and Senior Management" on pages 13 to 15 of the annual report. Moreover, one of the independent non-executive Director, Mr. Yue Weidong has appropriate professional qualifications, accounting and related financial management expertise so that he has sufficient calibre and views to carry weight.

Saved as disclosed in this report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board. Please refer to the Directors' Report on page 17 for the terms of appointment of each Director.

The board confines itself to making board policy decisions, such as the Group's overall strategies and policies, annual budgets and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions. The management must obtain prior approval from the Board before making decision or entering into any commitment on behalf of the Group.

CORPORATE GOVERNANCE REPORT

CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rules 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors are independent.

BOARD MEETINGS

During the year ended 31 December 2021, regular meeting was held to approve the financial results for the year of 2021 and the annual results for the year ended 31 December 2020. The Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each Board meeting. Notice of at least 14 days is normally given to all Directors for the regular Board meetings to be held and for other Board meetings, reasonable notice is also given. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association. In addition, if a substantial shareholder or a Director has a conflict of interest in a matter should be considered by the Board which the Board has determined to be materials, the matter should be dealt with by the physical Board. Independent non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at that meeting. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings. She also keeps the minutes, which are opened for inspection at any reasonable notice by any Director.

There were twelve (12) Board meetings held during the financial year ended 31 December 2021. Individual attendance of each Board member at these meetings is as follows:

Name of Directors	**Attendance/number of meetings**
Executive Directors	
Mr. Lou Lijiang *(appointed on 30 July 2021)*	4/12
Mr. Wang Hengzhuang *(resigned on 30 July 2021)*	8/12
Ms. He Lianfeng	12/12
Mr. Hu Hua Jun	12/12
Non-executive Director	
Mr. Xia Zhenbo *(appointed on 6 January 2022)*	N/A
Mr. Ma Jinsong *(resigned on 6 January 2022)*	11/12
Independent Non-executive Directors	
Mr. Yue Weidong *(appointed on 30 July 2021)*	4/12
Mr. Yuan Lingfeng *(appointed on 30 July 2021)*	4/12
Mr. Zhang Jianyong *(appointed on 6 January 2022)*	N/A
Mr. Leng Peng *(resigned on 30 July 2021)*	8/12
Mr. Zhu Weizhou *(resigned on 6 January 2022)*	10/12
Ms. Wu Yuejuan *(resigned on 30 July 2021)*	8/12

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2021, all Directors have participated in continuous professional development by attending a training course on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2021 is summarised below:

Name of Directors	**Attended training course on topics related to corporate governance and regulations**
	Yes/No
Executive Directors	
Mr. Lou Lijiang *(appointed on 30 July 2021)*	Yes
Mr. Wang Hengzhuang *(resigned on 30 July 2021)*	N/A
Ms. He Lianfeng	Yes
Mr. Hu Hua Jun	Yes
Non-executive Director	
Mr. Xia Zhenbo *(appointed on 6 January 2022)*	N/A
Mr. Ma Jinsong *(resigned on 6 January 2022)*	Yes
Independent Non-executive Directors	
Mr. Yue Weidong *(appointed on 30 July 2021)*	Yes
Mr. Yuan Lingfeng *(appointed on 30 July 2021)*	Yes
Mr. Zhang Jianyong *(appointed on 6 January 2022)*	N/A
Mr. Leng Peng *(resigned on 30 July 2021)*	N/A
Mr. Zhu Weizhou *(resigned on 6 January 2022)*	Yes
Ms. Wu Yuejuan *(resigned on 30 July 2021)*	N/A

All Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code A.2.1 of the CG Code provides, inter alia, that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executives should be clearly established and set out in writing.

Mr. Lou Lijiang is the Chairman, Mr. Xia Zhenbo is the Deputy Chairman and Ms. He Liangfeng is the chief executive officer.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the mandatory provisions set out in the CG Code.

The primary duties of the audit committee of the Company (the "**Audit Committee**") are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee currently has three members comprising the three independent non-executive Directors, Mr. Yue Weidong, Mr. Yuan Lingdong and Mr. Zhang Jianyong. Mr. Yue Weidong is the chairman of the Audit Committee. He is a PRC certified public accountant and possess the qualification as required under rule 5.05(2) of the GEM Listing Rules. None of the members of the Audit Committee is a member of the former or existing auditors of the Group. The Audit Committee has adopted the principles set out in the CG Code.

The Audit Committee has reviewed the results for the three months ended 31 March 2021, six months ended 30 June 2021, and nine months ended 30 September 2021 of the Group. It also has reviewed the audited consolidated financial statements for the year ended 31 December 2021 with management and the Group's external auditors and recommended its adoption to the Board.

The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Audit Committee meetings. She also keeps the minutes, which are opened for inspection at any reasonable notice by any members of the Audit Committee. There were six (6) meetings held by the Audit Committee during the year ended 31 December 2021 for reviewing the consolidated annual results of the Group for the year ended 31 December 2020 and the three quarterly results in 2021. Individual attendance of each independent non-executive Director at these meetings is as follows:

Name of Directors	**Attendance/number of meetings**
Independent Non-executive Directors	
Mr. Yue Weidong *(appointed on 30 July 2021)*	2/6
Mr. Yuan Lingfeng *(appointed on 30 July 2021)*	2/6
Mr. Zhang Jianyong *(appointed on 6 January 2022)*	N/A
Mr. Leng Peng *(resigned on 30 July 2021)*	4/6
Mr. Zhu Weizhou *(resigned on 6 January 2022)*	4/6
Ms. Wu Yuejuan *(resigned on 30 July 2021)*	4/6

The authorities of the Audit Committee include (1) investigation of any activity within its terms of reference; (2) seeking any information from any employee of the Group when required; and (3) obtaining outside legal or other independent professional advice if it considers necessary.

The main duties of the Audit Committee are as follows:

(a) to consider appointment of the external auditors, the audit fee, and any question of resignation or dismissal;

(b) to discuss with the external auditors the nature and scope of the audit;

(c) to review and monitor the external auditors, independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(d) to develop and implement policy on the engagement of external auditors to supply non-audit services;

(e) to review the Company's quarterly, interim and annual consolidated financial statements before submission to the Board;

(f) to discuss problem and reservations arising from the final audits and any matters that the external auditors may wish to discuss;

(g) to review the Group's statement on risk management and internal control system and financial reporting system prior to endorsement by the Board;

(h) to consider the major findings of any internal investigation in relation to the risk management and internal control matters as delegated by the Board and the management's response;

(i) to consider other topics as defined by the Board; and

(j) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness.

Auditor's Remuneration

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Group.

The remuneration in respect of services provided by the international auditor and domestic auditors for the year ended 31 December 2021 is analysed as follows:

	RMB'000
Audit service	669

The audit services fee paid for the years ended 31 December 2021 represents services provided by SHINEWING.

REMUNERATION COMMITTEE

According to the CG Code, the Company has established a remuneration committee (the "**Remuneration Committee**") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code in January 2005. The primary duties of the Remuneration Committee of the Company are to formulate and make recommendation to the Board on the Company's policy and structure for all the remuneration of the Directors and Senior Management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. According to the written terms of reference of the Remuneration Committee, the duties of the Remuneration Committee shall be:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policy;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(f) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(g) to advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under Rule 17.90 of the Listing Rules.

The Remuneration Committee shall be appointed by the Board and shall consist of not less than three members and a majority of whom should be independent non-executive Directors. The Remuneration Committee currently comprises three independent non-executive Directors, Mr. Yue Weidong, Mr. Yuan Lingfeng and Mr. Zhang Jianyong and the executive Director, Mr. Lou Lijiang. Mr. Yuan Lingfeng is chairman of the Remuneration Committee.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2021, the Remuneration Committee held three (3) meetings for reviewing the remuneration of the newly appointed, re-elected, re-designated Directors and Supervisors and relevant matters; the procedural rules of the Remuneration Committee and made recommendation to the board. Individual attendance of each member of the Remuneration Committee at the meeting is as follows:

Name of Directors	**Attendance/number of meetings**
Executive Director	
Mr. Lou Lijiang *(appointed on 30 July 2021)*	1/3
Mr. Wang Hengzhuang *(resigned on 30 July 2021)*	2/3
Independent Non-executive Directors	
Mr. Yue Weidong *(appointed on 30 July 2021)*	1/3
Mr. Yuan Lingfeng *(appointed on 30 July 2021)*	1/3
Mr. Zhang Jianyong *(appointed on 6 January 2022)*	N/A
Mr. Leng Peng *(resigned on 30 July 2021)*	2/3
Mr. Zhu Weizhou *(resigned on 6 January 2022)*	3/3
Ms. Wu Yuejuan *(resigned on 30 July 2021)*	2/3

Based on the advice provided from the Remuneration Committee, the emoluments of the Directors are recommended by the Board of Directors, having regard to their duties and responsibilities and approved by the shareholders of the Company.

NOMINATION COMMITTEE

According to the CG Code, the Company has established a nomination committee (the "**Nomination Committee**") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the CG Code on 30 March 2012. The primary duties of the Nomination Committee are to make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors. According to the written terms of reference, the duties of the Nomination Committee shall be:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Group's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorship;

(c) to assess the independence of the independent non-executive directors of the Company; and

(d) to make recommendations to the Board on:

  (i) the role, responsibilities, capabilities, skills, knowledge and experience required from members of the Board;

  (ii) the policy on the terms of employment of non-executive Directors;

  (iii) the composition of the Audit Committee, Remuneration Committee and other board committees of the Company;

(iv) proposed changes to the structure, size and composition of the Board;

(v) candidates that are suitable and qualified to become members of the Board;

(vi) the selection of individuals nominated for directorship;

(vii) the re-election by shareholders of the Company of any Directors who are to retire by rotation having regard to their performance and ability to continue to contribute to the Board;

(viii) the continuation (or not) in service of any independent non-executive Director serving more than nine years and to provide recommendation to the shareholders of the Company as to how to vote in the resolution approving the re-election of such independent non-executive Director;

(ix) the appointment or re-appointment of Directors;

(x) succession planning for Directors in particular the Chairman and the Chief Executive Officer; and

(xi) the policy concerning diversity of Board members;

(e) to provide full consideration to the followings in discharging of its duties as mentioned above or elsewhere in the terms of reference:

(i) the succession planning of Directors;

(ii) the need of leadership of the Group with a view of maintaining or fostering the competitive edge of the Group over others;

(iii) the changes in market environment and commercial needs of the market in which the Group operates;

(iv) the skills and expertise required from members of the Board;

(v) the Board's policy concerning diversity of Board members adopted from time to time; and

(vi) the relevant requirements of the GEM Listing Rules with regard to the Directors;

(f) in respect of any proposed service contracts to be entered into by any members of the Group with its director or proposed director, which require the prior approval of the shareholders of the Company at general meeting, to review and provide recommendations to the shareholders of the Company (other than shareholders who are Directors with a material interest in the relevant service contracts and their respective associates) as to whether the terms of the service contracts are fair and reasonable and whether such service contracts are in the interests of the Company and the shareholders as a whole, and to advise shareholders on how to vote;

(g) to ensure that on appointment to the Board, non-executive Directors receive a formal letter of appointment setting out what is expected of them in terms of time commitment, committee service and involvement outside meetings of the Board;

(h) to conduct exit interviews with any Director upon their resignation in order to ascertain the reasons for his departure; and

(i) to consider other matters, as defined or assigned by the Board from time to time.

The Nomination Committee shall be appointed by the Board and shall consist of not less than three members and a majority of whom should be independent non-executive Directors. The Nomination Committee currently comprises three independent non-executive Directors, Mr. Yue Weidong, Mr. Yuan Lingfeng and Mr. Zhang Jianyong and the executive Director, Ms. He Lianfeng. Mr. Zhang Jianyong was elected as the chairman of the Nomination Committee.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Group's own business model and specific needs from time to time.

During the year under review, the Nomination Committee held three (3) meetings for discussion of the existing structure of the board of directors of the Company and the procedures of appointment of Directors and Supervisors; and assessment of re-appointment of Directors and Supervisors in order to make recommendation to the board of Directors. Individual attendance of each member of Nomination Committee at the meeting is as follows:

Name of Directors	**Attendance/number of meetings**
Executive Director	
Ms. He Lianfeng	3/3
Independent Non-executive Directors	
Mr. Yue Weidong *(appointed on 30 July 2021)*	1/3
Mr. Yuan Lingfeng *(appointed on 30 July 2021)*	1/3
Mr. Zhang Jianyong *(appointed on 6 January 2022)*	N/A
Mr. Leng Peng *(resigned on 30 July 2021)*	2/3
Mr. Zhu Weizhou *(resigned on 6 January 2022)*	3/3
Ms. Wu Yuejuan *(resigned on 30 July 2021)*	2/3

With the existing Board members coming from a variety of business and professional background, the Nomination Committee considers that the Board possess a balance of skills, experience and diversity appropriate to the requirement of the Company's business.

DIRECTOR NOMINATION POLICY

The purpose of the Director nomination policy of the Company is to :

(i) set out the criteria and process in the nomination and appointment of Director;

(ii) ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company; and

(iii) ensure continuity of the Board and appropriate leadership at Board level.

CORPORATE GOVERNANCE REPORT

Criteria for nomination and appointment of Directors

The criteria for selecting any candidate for directorship are set out as follows:

(i) bringing an independent judgment and make constructive recommendation on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

(ii) taking the lead where potential conflicts of interests arise;

(iii) serving on the Audit Committee, and the Remuneration Committee and the Nomination Committee (in the case of candidate for non-executive Director) and other relevant Board Committees, if invited;

(iv) devoting sufficient time to the Board and/or any Committee(s) on which he or she serves so as to allow them to benefit from his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board;

(v) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;

(vi) ensuring the Nomination Committees on which he or she serves to perform their powers and functions conferred on them by the Board; and

(vii) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the GEM Listing Rules, where appropriate.

If a candidate is proposed to be appointed as an independent non-executive Director ("**INED**"), his or her independence shall be assessed in accordance with, among other things, the factors as set out in Rule 5.09 under the GEM Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an INED with such qualifications or expertise as required under Rule 5.02(2) under the GEM Listing Rules.

Nomination process

(a) Appointment of New Directors

(i) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of a new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(ii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

CORPORATE GOVERNANCE REPORT

(iii) The Nomination Committee should then recommend the Board to appoint the appropriate candidate for directorship, as applicable.

(iv) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of Director at the general meeting.

(b) Re-election of Director at General Meeting

(i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as a Director at the general meeting, an announcement will be published and a circular in respect of the relevant information of the candidate will be disclosed to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the GEM Listing Rules and/or applicable laws and regulations.

(c) Re-election of INED at General Meeting

Where the Board proposes a resolution to elect an individual as an INED at the general meeting, an announcement will be published and a circular in respect of the relevant information of the candidate will be disclosed to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the GEM Listing Rules and/or applicable laws and regulations:

(i) the process used for identifying the individual and why the Board believes the individual should be elected and the reasons why it considers the individual to be independent;

(ii) if the proposed INED will be holding his/her seventh (or more) listed company directorship, reasons should be given by the Board that the individual would still be able to devote sufficient time to the Board;

(iii) the perspectives, skills and experience that the individual can bring to the Board; and

(iv) how the individual contributes to diversity (including gender diversity) of the Board.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the current nomination policy and where, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs, to comply with all applicable laws and regulations from time to time and maintain good corporate governance practice.

A board diversity policy has been adopted by the Board in order to set out the approaches for achieving diversity on the Board. All Board appointments will be based on merit while taking into account diversity including gender diversity. The Nomination Committee will regularly review the measurable objectives to ensure its effectiveness to achieve diversity on the Board. The following measurable objectives have been set for implementing the board diversity policy:

- ensuring that there is no limitation on gender on selection of Directors;

- inclusion of candidates for Board members with working experience in other industries; and

- inclusion of candidates for Board members with knowledge and skills in different aspects.

The Nomination Committee has adopted a written nomination procedure (the "**Nomination Procedure**") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, will be given an induction package containing all key legal and the GEM Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a Director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's businesses and activities.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Company and its subsidiaries and in presenting the quarterly and annual consolidated financial statements, and announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Company's position and prospects. In preparing the consolidated financial statements for the year ended 31 December 2021, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the consolidated financial statements, have made judgments and estimates that are prudent and reasonable, and have prepared the consolidated financial statements on a going concern basis.

The Directors' responsibilities in preparing consolidated financial statements and the auditor's responsibilities for the audit of the consolidated financial statements are set out in the Independent Auditor's Report on page 44 of this annual report.

CORPORATE GOVERNANCE REPORT

INSIDE INFORMATION, RISK MANAGEMENT AND INTERNAL CONTROL

The Group has established policy and procedure for handling and dissemination of insider information. The policy requires sensitive information (if any) to be protected with high level of care and the persons receiving potential sensitive information are required to comply with the applicable laws, regulations and rules in respect of insider information. The Group follows the requirements of the GEM Listing Rules and the Securities and Futures Ordinance when disclosing information to public. Inside information (if any) will be disseminated timely in a way which aims at preventing any person be placed in a privileged dealing position, letting the market be appropriately informed for the latest information, and allowing investors to have reasonable time to respond to such information.

The Board recognises its responsibility to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's objectives, and ensure the Group establishes and maintains a sound and effective risk management and internal control system. The Board acknowledged that an effective risk management and internal control systems are systems that 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. The Board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems.

The Group's risk management system is established under a structured framework with clearly defined objective. A top-down approach and methodology is adopted to identify risk, assess and prioritize risk, develop risk response, monitor risk and report risk. The Group has set up appropriate governance body to enforce the risk management system. Risks are identified through periodic assessment performed by different departments of the Group following the pre-set program. Identified risks are then summarized, prioritized according to the risk assessment criteria as set out in the Group's risk policy documented in report, and communicated within the Group to ensure that risk owners and action plans are properly assigned to the identified risks.

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks. The Group share the internal audit function with its ultimate holding company, Zhejiang Yongli. Hence, the risk management and internal control system is evaluated independently by the Internal Audit Department of Zhejiang Yongli ("**Internal Audit Department**") on an on-going basis. At the year end, the Company normally will appoint an independent professional party to carry out annual review of risk management and internal control systems covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls if the Board consider that it is necessary. During the year under review, an independent professional party was appointed to carry out an annual review of the internal control system and risk management of the Group for the year of 2021. During the year ended 31 December 2021, the Board has conducted annual review to assess the effectiveness of the Group's risk management and internal control system through the following:

(i) reviewing the policy of the Group's risk management system;

(ii) reviewing the risk reports prepared by the Group and evaluating the risk inventory list and the related action plan assigned for the identified risks;

(iii) assessing the program and findings of the team and governance body who are in charge of risk management system and internal audit function;

(iv) conducting regular management meetings to discuss and handle the identified risks and internal control issues; and

(v) reviewing the findings made by the auditor in respect of issues encountered during the process of annual audit and interim review.

CORPORATE GOVERNANCE REPORT

Based on the results of the assessment, no material issue has been identified that indicates significant inadequacy and ineffectiveness of the Group's risk management and internal control system. Appropriate actions are being taken to address the areas for improvement identified. The Board and the Audit Committee considered that the key areas of the Company's risk management and internal control systems are reasonably implemented except for the failure by the Company to comply with the full disclosure and independent shareholders' approval requirements under the GEM Listing Rules in respect of the provision of a revolving loan in the principal amount of up to RMB35 million for Zhejiang Yongli during the period from 1 January 2021 to 31 March 2022 (the "**Revolving Loan**"), which were due to the oversight of the Company. The revolving loan advanced by the Company to Zhejiang Yongli constituted connected transactions under Chapter 20 of the GEM Listing Rules and should have been disclosed by way of announcement and circular and should have been approved by independent shareholders of the Company. The Company entered into a revolving loan agreement with Zhejiang Yongli on 31 March 2022 to confirm the revolving loan advanced by the Company to Zhejiang Yongli and will arrange for it to be approved by the independent shareholders of the Company. Details of the transactions of the revolving loan between the Company and Zhejiang Yongli were disclosed in the announcement of the Company dated 31 March 2022.

In order to prevent the occurrence of similar non-compliance incident in the future and to comply with the requirements under the GEM Listing Rules, the Company has taken or will take the following remedial actions:

(i) the Company has reviewed other bank remittances made by the Company and checked whether it is necessary for the Company to comply with any requirements under the GEM Listing Rules. Save as disclosed in the announcement dated 31 March 2022 (the "**Announcement**"), the Company did not discover other transaction which would be required to comply with the requirements under the GEM Listing Rules;

(ii) the Company has published the Announcement to inform the shareholders of the details of, among other things, the Revolving Loan;

(iii) the Company will issue a circular containing the details of the Revolving Loan to the shareholders and will convene the extraordinary general meeting for the independent shareholders to approve, confirm and ratify the Revolving Loan;

(iv) the Company will issue a memorandum to the Board and senior management of the Company to report the incident of non-compliance of GEM Listing Rules in relation to the Revolving Loan and to reiterate the importance to strictly follow the internal control measures adopted by the Company to ensure that the Company will be able to comply with the applicable requirements under the GEM Listing Rules, and in case of any doubt, the Company will consult external legal advisers, financial advisers and/or the Stock Exchange in advance;

(v) the Company will engage professional third party to conduct an internal control review particularly in relation to the bank remittance and operation of bank accounts of the Company and implement the necessary measures to enhance the internal control of the Company in or before May 2022; and

(vi) the relevant personnel(s) of the Group will attend a director training in relation to the requirements under Chapters 19 and 20 of the GEM Listing Rules as soon as possible after insurance of circular in May 2022 (for such hours as may be requested by the Stock Exchange) to get himself familiar with the requirements under the GEM Listing Rules and to ensure that he will procure the Company to comply with the requirements under the GEM Listing Rules in the future.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Details of the remuneration of the Directors and senior management are contained in note 14 to the consolidated financial statements.

COMPANY SECRETARY

Ms. Chen Yen Yung ("**Ms. Chen**") was appointed as the company secretary of the Company in June 2002. She is responsible to the Board for ensuring the board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance developments.

During the year ended 31 December 2021, Ms. Chen has undertaken not less than 15 hours of relevant professional training.

SHAREHOLDER'S RIGHTS

Shareholder's rights are set out in a number of sources, such as the Articles of Association, and the GEM Listing Rules. With reference to the above sources, the Company sets out below details of shareholder's rights in the following aspects:

1. The way in which shareholders of the Company ("Shareholders") can convene an extraordinary general meeting or class meeting

Pursuant to Article 79 of the Articles of Association, Shareholders who request the convening of an extraordinary general meeting or a class meeting shall do so in accordance with the following procedures:

(a) two (2) or more shareholders with combined title to more than 10% (including 10%) of shares with voting rights at the meeting to be convened may sign one or several written requests in the same format and with the same contents to the board of directors to convene an extraordinary general meeting or class meeting of shareholders and which shall also specify the meeting's agenda. After receiving the aforesaid written request, the board of directors shall promptly convene an extraordinary general meeting or class meeting of shareholders. The aforesaid number of shares held by shareholders shall be calculated as at the date of the written request;

(b) if the Board fails to issue notification convening a meeting within thirty (30) days after receiving the aforesaid written request, the Shareholders who raised the request may convene the meeting within four (4) months after the Board received that request. The procedures for convening such a meeting shall be, as much as possible, the same as the procedures for convening a general meeting by the Board.

The written request must be signed by the Shareholders and sent to the Head office and principal place of business in Hong Kong of the Company as disclosed in the "Corporate Information" section to the annual report (the "**Hong Kong Office**"), for the attention of the Company Secretary of the Company. The request will then be verified with the Company's H Share share registrar and transfer office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will forward the request to the Board.

2. The procedures for sending enquiries to the Board

Shareholders and other stakeholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Hong Kong Office and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling.

3. The procedures for making proposals at shareholder's meetings

To put forward proposals at an annual general meeting or an extraordinary general meeting, the shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Hong Kong Office. The request will be verified with the H Share share registrar and transfer office and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting. Moreover, the notice period concerning the notice to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to the Article 58 of the Articles of Association of the Company:

"When convening a general meeting of shareholders, written notification shall be made to the Shareholders registered in the Shareholders Register forty-five (45) days (including the date of meeting but excluding the date of notice issuance) before the convening of the meeting of those matters to be discussed at the meeting and the date and location of the meeting. Shareholders intend to attend the general meeting shall send their written acknowledge to the Company twenty (20) days before the convening of the meeting."

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company has disclosed all necessary information to the Shareholders and investors in compliance with the GEM Listing Rules and used a number of formal communications channels to account to Shareholders and investors for the Company. These include (i) the Company replying to the enquiries from Shareholders timely; (ii) updated and key information of the Company available on website of the Company; (iii) the Company's website offering communication channel between the Company and its Shareholders and investors; and (iv) the Company's H Share share registrar in Hong Kong serves the shareholders regarding all H Shares share registration matters.

CONSTITUTIONAL DOCUMENTS

There was no change in the Articles of Association of the Company during the year ended 31 December 2021.

DIVIDEND POLICY

The holders of the H Shares will share proportionately, on a per Share basis, all dividends and other distributions declared by the Board of Directors. For holders of the H Shares, cash dividend payments, if any, shall be declared by the Board in Renminibi ("**RMB**") and paid in HK dollars ("**HK$**").

The declaration of dividends is subject to the discretion of the Board. The actual amount of dividends declared and paid to holders of H shares will depend upon the following factors:

— general business conditions of the Group;
— financial results of the Group;
— capital requirements of the Group;
— interests of the Company's shareholders; and
— any other factors which the Board may deem relevant.

CORPORATE GOVERNANCE REPORT

The Company may only distribute dividends after it has made allowances for:

— recovery of losses, if any;
— allocations to the statutory surplus reserve fund;
— allocations to the statutory welfare fund; and
— allocations to a discretionary surplus reserve fund if approved by its shareholders.

Dividends payable in respect of H Shares shall be calculated and declared in RMB and paid in HK$. Conversion of RMB into HK$ will be subject to the relevant PRC foreign exchange regulations and will be calculated at an exchange rate which will be the average of the PBOC Exchange Rate 1 calendar week preceding the date of declaration of dividends. If the Company does not have sufficient foreign exchange reserves to pay its HK$ dividends, it intends to exchange the required HK$ from authorised banks in the PRC or through other means.

LOOKING FORWARD

The Board believes that good corporate governance can safeguard the effective allocation of resources and safeguard shareholder's interest. The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the Code Provisions.

INDEPENDENT AUDITOR'S REPORT

SHINEWING (HK) CPA Limited
43/F., Lee Garden One, 33 Hysan Avenue
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司
香港銅鑼灣希慎道33號
利園一期43樓

TO THE SHAREHOLDERS OF ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.
(Established as a joint stock limited company in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Zhejiang Yongan Rongtong Holdings Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 47 to 115, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the 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 matters identified in our audit is related to (i) valuation and impairment assessment of inventories; (ii) recoverability and impairment assessment of trade receivables; (iii) interest in an associate; and (iv) impairment assessment of interest in an associate.

INDEPENDENT AUDITOR'S REPORT

VALUATION AND IMPAIRMENT ASSESSMENT OF INVENTORIES

Refer to note 22 to the consolidated financial statements and the accounting policies on page 59.

The key audit matter	How the matter was addressed in our audit
At 31 December 2021, the Group maintained inventories of approximately RMB27,971,000, net of accumulated allowance for inventories of approximately RMB6,549,000. We have identified the valuation of inventories as a key audit matter due to the use of significant degree of judgments and estimates in identifying obsolete and slow moving inventories and in determining the net realisable value ("NRV") which are based on conditions and the marketability of the inventories. NRV represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Group carried out the inventory review at the end of the reporting period and made the necessary allowance so as to write off or write down inventories to their NRVs.	Our audit procedures were designed to evaluate the management's assessment of the conditions and the marketability of the obsolete and slow moving inventories and identify any valuation risk of inventories. We have assessed the reasonableness of the basis of determining the NRV and evaluate the condition and marketability of the inventories assessed by the management, we have checked the sales order supporting the existing inventories, tested the subsequent sales to source documents on a sampling basis. We have also assessed the sufficiency of allowance on inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sampling basis.

RECOVERABILITY AND IMPAIRMENT ASSESSMENT OF TRADE RECEIVABLES

Refer to note 23 to the consolidated financial statements and the accounting policies on pages 59 to 65.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2021, trade receivables of the Group amounted to approximately RMB22,925,000, net of loss allowance for expected credit loss ("ECL") of approximately RMB9,331,000. We have identified the impairment assessment of the trade receivables as a key audit matter in view of the significance of the carrying amount of trade receivables and the ECL estimation performed by the management involved significant judgements and estimates, including use of significant unobservable inputs in the valuation performed by the management at the end of the reporting period.	Our audit procedures were designed to review the management's estimation on ECL of trade receivables and challenge the reasonableness of the significant judgements and estimates, including use of significant unobservable inputs in the ECL estimation by the management. We have also assessed the appropriateness of the ECL provisioning methodology and reviewed the inputs data used in assessment of ECL with reference to the latest available general economic data, market research, and the cash collection performance against the Group's historical trends and credit loss experience.

INTEREST IN AN ASSOCIATE

Refer to note 20 to the consolidated financial statements and the accounting policies on page 56 to 58.

The key audit matter	How the matter was addressed in our audit
We identified interest in an associate as a key audit matter due to the significance of the investment to the Group's consolidated financial statements as a whole and the involvement of judgements in the recognition of system integration and software development service revenue which could affect the carrying amount of interest in an associate as at 31 December 2021 and share of result of an associate for the year then ended. The Group's interest in an associate was engaged in the business of system integration and software development. As disclosed in note 20 to the consolidated financial statements, the carrying amount of interest in an associate as at 31 December 2021 and the share of result of an associate for the year ended 31 December 2021 was approximately RMB40,665,000 and RMB5,908,000 respectively.	We performed the following procedures, among others, evaluations of the significant estimates made by the management, whereby we examined project documentation and discussed the status of projects under construction with the management, finance, and technical staff of an associate. We tested the operating effectiveness of controls designed and implemented by an associate over its process to record contract costs and contract revenue and the progress towards complete satisfaction of performance obligations. We also performed tests of details on costs incurred, including checking invoices, reviewing the estimated contract costs to assess the status of the project. In addition, we performed confirmation procedures for the invoiced contract amount and the total contract amount on a sampling basis.

IMPAIRMENT ASSESSMENT OF INTEREST IN AN ASSOCIATE

Refer to note 20 to the consolidated financial statements and the accounting policies on page 56 to 58.

The key audit matter	How the matter was addressed in our audit
We identified the impairment of interest in an associate as a key audit matter due to the significance of the investment to the Group's consolidated financial statements as a whole, combined with the significant judgements involved in management's impairment assessment of the interest in an associate. As disclosed in note 20 to the consolidated financial statements, the carrying amount of interest in an associate was approximately RMB40,665,000 as at 31 December 2021 and the accumulated impairment loss was approximately RMB31,239,000. The value-in-use calculation requires the Group to estimate the future cash flows expected to be generated from an associate with assumptions of suitable growth rate and discount rate in order to calculate the present value.	Our audit procedures were designed to obtain management's assessment prepared by their valuation specialist and evaluate the management's estimation of the future cash flows expected to be generated from an associate, obtaining the present value of the estimated future cash flows for value in use calculation. We have also evaluated the reasonableness of the growth rate used in the cash flow projections and discount rate adopted in the value-in-use calculation.

INDEPENDENT AUDITOR'S REPORT

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

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THE AUDIT COMMITTEE 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 of the Company 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 of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. Chan Ka Wai.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Ka Wai
Practising Certificate Number: P07328

Hong Kong
26 April 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	**2021** **RMB'000**	2020 RMB'000
Revenue	8	**98,184**	77,980
Cost of sales		**(97,734)**	(75,553)
Gross profit		**450**	2,427
Other income and gains	8	**4,717**	2,437
Selling and distribution costs		**(1,750)**	(1,296)
Administrative expenses		**(18,369)**	(16,800)
Share of result of an associate	20	**(5,908)**	(7,423)
Loss on disposal of a subsidiary	32	**—**	(2,536)
Finance costs	10	**(2,017)**	(6,587)
Loss before taxation		**(22,877)**	(29,778)
Income tax credit	11	**4,057**	1,087
Loss for the year	12	**(18,820)**	(28,691)
Other comprehensive income (expense) for the year			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of properties		**2,314**	2,429
Income tax relating to items that will not be reclassified to profit or loss		**(579)**	(607)
Other comprehensive income for the year, net of tax		**1,735**	1,822
Total comprehensive expense for the year		**(17,085)**	(26,869)
		RMB	RMB
Loss per share			
Basic and diluted	13	**(1.77) cents**	(2.70) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	**2021** **RMB'000**	2020 RMB'000
Non-current assets			
Property, plant and equipment	17	**112,469**	118,998
Right-of-use assets	18	**5,704**	5,892
Goodwill	19	**—**	—
Interest in an associate	20	**40,665**	46,573
Financial asset at fair value through profit or loss	21	**25,881**	24,757
		184,719	196,220
Current assets			
Inventories	22	**27,971**	35,508
Trade and other receivables	23	**33,229**	29,944
Bank balances and cash	24	**30,968**	31,635
		92,168	97,087
Current liabilities			
Trade and other payables	25	**20,552**	17,630
Contract liabilities	26	**7,945**	8,587
Deferred income		**159**	159
Tax payable		**334**	329
		28,990	26,705
Net current assets		**63,178**	70,382
Total assets less current liabilities		**247,897**	266,602
Non-current liabilities			
Deferred tax liabilities	28	**7,441**	10,919
Amount due to immediate holding company	29	**18,253**	16,236
Deferred income		**1,032**	1,191
		26,726	28,346
		221,171	238,256

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Capital and reserves			
Share capital	30	**106,350**	106,350
Share premium and reserves		**114,821**	131,906
		221,171	238,256

The consolidated financial statements on pages 47 to 115 were approved and authorised for issue by the board of directors on 26 April 2022 and are signed on its behalf by:

Mr. Lou Lijiang,
Director

Mr. Xia Zhenbo
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
			(note (a))		(note (b))	(note (c))	
At 1 January 2020	106,350	69,637	331,664	42,067	12,496	(314,912)	247,302
Loss for the year	—	—	—	—	—	(28,691)	(28,691)
Gain on revaluation of properties, net of tax	—	—	—	1,822	—	—	1,822
Other comprehensive income for the year	—	—	—	1,822	—	—	1,822
Total comprehensive income (expense) for the year	—	—	—	1,822	—	(28,691)	(26,869)
Recognition upon modification of terms of amount due to immediate holding company	—	—	17,823	—	—	—	17,823
Release of revaluation reserve upon disposal of a subsidiary (note 32)	—	—	—	(354)	—	354	—
At 31 December 2020 and 1 January 2021	**106,350**	**69,637**	**349,487**	**43,535**	**12,496**	**(343,249)**	**238,256**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(18,820)**	**(18,820)**
Gain on revaluation of properties, net of tax	**—**	**—**	**—**	**1,735**	**—**	**—**	**1,735**
Other comprehensive income for the year	**—**	**—**	**—**	**1,735**	**—**	**—**	**1,735**
Total comprehensive income (expense) for the year	**—**	**—**	**—**	**1,735**	**—**	**(18,820)**	**(17,085)**
At 31 December 2021	**106,350**	**69,637**	**349,487**	**45,270**	**12,496**	**(362,069)**	**221,171**

Notes:

(a) Other reserve represents the dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from ultimate holding company and immediate holding company (note 29) of the Company.

(b) As stipulated by regulations in the People's Republic of China (the "**PRC**"), the Company is required to appropriate 10% of its after-tax profit (after offsetting prior year losses) to a statutory surplus reserve fund until the balance of the fund reaches 50% of its registered capital and thereafter any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior year losses, or for conversion into registered capital on the condition that the statutory surplus reserve fund shall be maintained at a minimum of 25% of the registered capital after such utilisation.

(c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 December 2021 and 2020, no reserves were available for distribution as the Group incurred accumulated losses.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	**2021 RMB'000**	2020 RMB'000
OPERATING ACTIVITIES			
Loss before taxation		**(22,877)**	(29,778)
Adjustments for:			
Interest income		**(108)**	(117)
Government subsidies		**(497)**	(616)
Fair value (gain) loss on financial asset at fair value through profit or loss		**(1,124)**	732
Finance costs		**2,017**	6,587
Depreciation of right-of-use assets		**188**	188
Depreciation of property, plant and equipment		**9,104**	9,479
Dividend from financial asset at FVTPL		**(115)**	(313)
Impairment loss recognised in respect of trade receivables		**2,953**	4,027
Share of result of an associate		**5,908**	7,423
Write-back of trade payables		**—**	(453)
Loss on disposal of a subsidiary		**—**	2,536
Gain on disposal of property, plant and equipment		**(1,806)**	—
Operating cash flows before movements in working capital		**(6,357)**	(305)
Decrease in inventories		**7,537**	7,765
Increase in trade and other receivables		**(6,238)**	(3,063)
Increase (decrease) in trade and other payables		**2,922**	(14,099)
(Decrease) increase in contract liabilities		**(642)**	6,522
Cash used in operating activities		**(2,778)**	(3,180)
Income taxes refunded (paid)		**5**	(52)
NET CASH USED IN OPERATING ACTIVITIES		**(2,773)**	(3,232)
INVESTING ACTIVITIES			
Interest received		**108**	117
Dividend received from financial asset at FVTPL		**115**	313
Government subsidies		**—**	1,589
Purchase of property, plant and equipment		**(261)**	(123)
Net cash outflow on disposal of a subsidiary	32	**—**	(3,302)
Advance to ultimate holding company		**(247,710)**	—
Repayment by ultimate holding company		**247,710**	—
Proceeds from disposal of property, plant and equipment		**1,806**	—
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**1,768**	(1,406)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
FINANCING ACTIVITIES		
Repayment to immediate holding company	—	(11,000)
Government subsidy received	**338**	377
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**338**	(10,623)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(667)**	(15,261)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**31,635**	46,896
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**30,968**	31,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL

Zhejiang Yongan Rongtong Holdings Co., Ltd. (the "Company") is a joint stock limited company established in the People's Republic of China (the "PRC") and the H shares of the Company are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate parent is 貴州永利企業管理有限公司 (Guizhou Yongli Enterprise Management Co., Ltd.*) ("Guizhou Yongli") (formerly known as 貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Ltd.*)), an enterprise established in the PRC, and its ultimate parent and ultimate controlling party of the Company is 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*) ("Zhejiang Yongli"), which is established in the PRC.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are (i) the manufacture and sale of woven fabrics; (ii) the provision of woven fabrics subcontracting services; (iii) assets management services and; (iv) investment advisory services. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company.

* *English name is for identification only.*

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

In the current year, the Group has applied, for the first time, the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 January 2021.

Amendments to HKFRS 16	Covid-19-related rent concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts and related Amendments[3]
Amendments to HKFRS 3	Reference to Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-related rent concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[3]
Amendment to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendment to HKAS 8	Definition of Accounting Estimates[3]
Amendment to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction[3]
Amendments to HKAS 16	Property, plant and Equipment: Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018–2020 cycle[2]

1 Effective for annual periods beginning on or after 1 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the new and amendments HKFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

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 Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether 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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries 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 component of other comprehensive income of subsidiaries 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill relating to an associate is set out in "investment in an associate" below.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investment in an associate is accounted for in the consolidated financial statements using the equity method. Under the equity method, investment in an associate is initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associate are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the net investment subsequently increases.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interest in an associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

The associate of the Group recognised revenue from the following major sources:

- system integration
- information planning and design
- software development

System integration service

The associate delivers multiple units of highly complex and specialised devices and is responsible for overall management of the contract, which required the performance and integration of activities including procurement of materials, assembly and testing the specialised devices. The sales of specialised devices and services provided are not distinct and separately identifiable and therefore regard as a single performance obligation. Revenue from these contracts is recognised over time as the associate's performance creates and enhances an asset that the customer controls as the asset is created or enhanced. The recognition is based on input method as detailed below.

Information planning and design service

Taking into account the contract terms and the associate's business practice, revenue from information planning and design service contracts is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from information planning and design service is generally recognised when the service is rendered to the customer.

Software development service

The associate designs and develops system according to customers' specification, and is responsible for installation, testing of the system as well as training to personnel. Taking into account the contract terms and the associate's business practice, revenue from software development service contracts is recognised over time as the associate's performance creates and enhances an asset that the customer controls as the asset is created or enhanced. The recognition is based on input method as detailed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Input method)

Revenue from system integration and software development contracts are recognised over time.

The progress towards complete satisfaction of a performance obligation is measured based on input method. Input methods recognise revenue on the basis of the associate's efforts or inputs to the satisfaction of a performance obligation (i.e. contract costs incurred) relative to the total expected inputs to the satisfaction of that performance obligation.

The Group applies HKFRS 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied and which form part of the net investment in the investee. In applying HKFRS 9 to long-term interests, the Group does not take into account adjustments to their carrying amount required by HKAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS 28).

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

Revaluations are made annually at each end of reporting period. Any increase in carrying amount of an asset as a result of a revaluation is recognised in other comprehensive income and accumulated in equity under the heading of asset revaluation reserve while any decrease resulted is recognised in profit or loss. However, an increase is recognised in profit or loss when that it reverses a revaluation decrease of the same asset previously recognised in profit or loss while a decrease is recognised in other comprehensive income when it reduces the related amount accumulated in asset revaluation reserve.

The asset revaluation reserve in respect of an item of property, plant and equipment stated at revalued amount is transferred directly to accumulated losses when it is realised on retirement or disposal.

Depreciation is recognised so as to allocate the cost or fair values of items of property, plant and equipment 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value of inventories represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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 fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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 marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated creditimpaired financial assets, 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 creditimpaired. For financial assets that have subsequently become creditimpaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the creditimpaired financial instrument improves so that the financial asset is no longer creditimpaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in "other income and gains" (note 8).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in ’other income and gains’. Fair value is determined in the manner described in note 7.

A financial asset is held for trading if:

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

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

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from financial analysts as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

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

- 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 for a particular debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset 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 foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument 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 the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- 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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 24 months 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. Any recoveries made are recognised in profit or loss.

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 adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 party.

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.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity 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 a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities (Continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on property, plant and equipment and right-of-use assets (Continued)

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 cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the 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 the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

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

The Group recognised 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 customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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 asset is created and enhanced; 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 goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract liabilities

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

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

The Group recognised revenue from the following major sources:

- sales of woven fabric goods
- provision of woven fabrics subcontracting services
- assets management services
- investment advisory services

Sales of woven fabric

Revenue from sale of woven fabric is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of the goods).

Woven fabrics subcontracting services

Revenue from woven fabrics subcontracting services is recognised over time. Under these arrangements, the Group processes the consignment contracts from customers in accordance with the customer's specification. Under the contract the Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Assets management services

Revenue from fund management services is recognised over time. The Group manages a portfolio of investments on behalf of the customers. Revenue from these contracts is therefore recognised over time during the investment period on a straight-line basis.

Investment advisory services

Revenue from investment advisory services is recognised at the point when the investment appraisal report is delivered. Under these arrangements, the Group provides investment consulting services for clients who do not have industry knowledge in equity investment market and the Group does not have the right to be paid for work done to date if the customers cancel the contract before the order is fully completed.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Output method)

Revenue from woven fabrics subcontracting services and assets management services are recognised over time.

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services or goods transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

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.

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 taxation as reported in the consolidated statement of profit or loss and other comprehensive income because 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 the reporting period.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 difference 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, 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 and interests 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 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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end 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 the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle current tax liabilities and assets on a net basis.

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 relating to right-of-use assets and lease liabilities are not recognised at initial recognition 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end 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 on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as expenses when employees have rendered services entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Leasing

Definition of a lease

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

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee (Continued)

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position. The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its property, plant and equipment. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the 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 income in the consolidated statement 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.

Investment in subsidiaries

Investment in subsidiaries is stated on the statement of financial position of the Company at cost less accumulated impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

When measuring fair value, except for the net realisable value of inventories and value in use of certain properties, plant and equipment for the purpose of impairment assessment, 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.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. CRITICAL ACCOUNTING JUDGMENTS 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 judgments, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying the accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying the accounting policies (Continued)

Judgments in determining the timing of satisfaction of performance obligations

The recognition of each of the Group's revenue stream requires judgment by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgment, the directors of the Company considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers.

For the Group's woven fabrics subcontracting services, the directors of the Company has assessed that the Group's performance creates and enhances an asset that the customer controls as the Group performs. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over time and recognised the revenue over the service period.

Legal title of buildings

Despite the Group had paid the full purchase consideration for the buildings as detailed in note 17, formal titles of certain of the Group's rights to the use of the buildings were not obtained from the relevant government authorities. In the opinion of the directors of the Company, the absence of formal legal title to these buildings does not impair the value of the relevant assets of the Group.

Key sources of estimation uncertainty

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

Estimated impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment (other than buildings at revaluation model) and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. 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 assets belongs.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Estimated impairment of property, plant and equipment and right-of-use assets (Continued)

The future cash flow is estimated based on past performance and expectation for market development, including but not limited to the impacts of COVID-19 pandemic. As the current environment is uncertain, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainty. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2021, the carrying amounts of property, plant and equipment and right-of-use assets were approximately RMB112,469,000 and RMB5,704,000 (2020: RMB118,998,000 and RMB5,892,000) respectively.

Revaluation, depreciation and useful lives of property, plant and equipment

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives as set out in note 17, commencing from the date the items of property, plant and equipment are available for use. The estimated useful lives and the dates the items of property, plant and equipment are available for use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will impact the depreciation charge in the year in which such estimate has been changed.

As described in note 17, buildings in the PRC were revalued as at 31 December 2021 and 2020 based on replacement cost method respectively determined by independent professional valuer respectively. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation for replacement cost method for buildings in the PRC, the independent professional valuer considers information from the aggregate amount of the new replacement cost of the buildings and deductions may be made to allow for the age, condition, economic or functional obsolescence and environmental factor existing at the end of the reporting period. As at 31 December 2021, the carrying amounts of buildings in the PRC are approximately RMB87,099,000 (2020: RMB90,075,000).

Impairment loss recognised in respect of trade receivables

The impairment provisions for trade receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is outstanding as well as the Group's historical experience and is adjusted to reflect current and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge or reversal to the consolidated statement of profit or loss and other comprehensive income. As at 31 December 2021, allowance for impairment of trade receivables is approximately RMB9,331,000 (2020: RMB6,378,000).

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4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less any cost to complete and to sell the goods. The cost of inventories is written down to the net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the consolidated statement of profit or loss and other comprehensive income is the difference between the carrying value and net realisable value of inventories. In determining whether the cost of inventories can be recovered, significant judgment is required. In making this judgment, the Group evaluates, amongst other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market condition and past experience in sales of similar products. It could change significantly as a result of changes in customer preferences and competitor actions in response to changes in market condition. At 31 December 2021, the carrying amount of inventories is approximately RMB27,971,000 (2020: RMB35,508,000) (net of accumulated allowance for inventories of approximately RMB6,549,000 (2020: RMB6,549,000)).

Carrying amount of amount due to immediate holding company

As at 31 December 2021, the carrying amount of the interest-free amount due to immediate holding company was approximately RMB18,253,000 (2020: RMB16,236,000). According to the supplementary agreement signed between the Company and Guizhou Yongli mentioned in note 29, the amount is unsecured and repayable in accordance with the repayment schedule as mentioned in note 29.

The carrying amount of the amount due to immediate holding company may be adjusted to reflect the revised estimated cash flows and reviews its estimates of the timing and repayment to the immediate holding company based on current year cash flow, and consequently affect deemed capital contribution at initial recognition and the amount of imputed interest to be recognised in profit or loss, if any, over the expected life of the amount due to immediate holding company.

Interest in an associate/share of result of an associate

The recognition of each of the associate's revenue stream requires judgment by the directors of the associate in determining the timing of satisfaction of performance obligations.

In making their judgment, the directors of an associate considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the associate has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Interest in an associate/share of result of an associate (Continued)

For the associate's business, the directors of the associate have assessed that for the revenue from system integration and software development contracts. The associate's performance creates and enhances an asset that the customer controls as an associate perform. Therefore, the directors of the associate have satisfied that the performance obligation is satisfied over time and recognised the revenue over the service period.

For the associate's system integration and software development contracts, revenue is recognised over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the associate's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each project in the contract. The associate calculated the cost allocation based on type of projects. Significant judgments and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the reporting date. In order to keep the budget accurate and up-to-date, management of the associate conducts periodic reviews of the budgeted contract costs by comparing the budgeted amounts to the actual costs incurred. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the contracts as the contracts progress, the actual outcome of the contracts in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue, cost and profit recognised.

Impairment assessment of interest in an associate

At the end of each reporting period, the Group assesses whether there is an objective evidence that the interest in an associate may be impaired. As at 31 December 2021, the management and the independent professional valuer have assessed the recoverable amount of the Group's interest in an associate based on its value-in-use calculation which involves the judgement of the management and the independent professional valuer. As at 31 December 2021, the carrying amount of interest in an associate is approximately RMB40,665,000 (2020: RMB46,573,000), accumulated impairment losses is approximately RMB31,239,000 (2020: RMB31,239,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes amount due to immediate holding company as disclosed in note 29, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2021	2020
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost (including bank balances and cash)	**54,962**	59,166
Financial asset at FVTPL		
— Financial asset mandatorily measured at FVTPL	**25,881**	24,757
Financial liabilities		
Financial liabilities at amortised cost	**36,325**	31,338

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial asset at FVTPL, trade and other receivables, bank balances and cash, trade and other payables and amount due to immediate holding company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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 on a timely and effective manner.

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

Currency risk

The Group has no monetary liabilities denominated in foreign currency. The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2021 **RMB'000**	2020 RMB'000
Trade receivables denominated in United States dollars ("US$")	**3,980**	1,536
Bank balance denominated in US$	**600**	594
	4,580	2,130

The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to the currency of United States.

The following table details the Group's sensitivity to a 5% (2020: 5%) increase and decrease in RMB against US$. 5% (2020: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2020: 5%) change in foreign currency rates.

A positive number below indicates a decrease in post-tax loss where RMB weakens 5% (2020: 5%) against US$. For a 5% (2020: 5%) strengthening of RMB against US$, there would be an equal and opposite impact on the loss.

	2021 **RMB'000**	2020 RMB'000
Decrease in post-tax loss	**172**	80

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For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its variable-rate short-term deposits. 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 the short-term deposits are short-term in nature, the exposure of fair value interest rate risk is minimal and no sensitivity analysis to interest rate risk is presented.

Credit risk

As at 31 December 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of our Group mainly arises from cash and cash equivalents and trade and other receivables. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, 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.

In response to the COVID-19 pandemic, the Group monitors closely the economic environment and where appropriate, takes actions to limit its exposure to customers that are severely impacted.

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for customer with significant balances and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-trade related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit ratings agencies.

6. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk (Continued)

Included in the Group's trade receivables balance as at 31 December 2021, approximately RMB5,077,000 (2020: RMB5,624,000) and RMB14,098,000 (2020:RMB12,564,000), representing 16% (2020: 19%) and 44% (2020: 43%) of the total trade receivables, is due from the Group's largest customer and the five largest customers respectively.

The Group's concentration of credit risk by geographical locations is mainly in the PRC (2020: PRC), which accounted for 70% (2020: 77%) of the total trade receivables 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 the 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. Especially the following indicators are incorporated:

- internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

The Group's exposure to credit risk

In order to minimise credit risk, the management develops and maintains the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the management uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

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

Category	**Description**	**Basis for recognising ECL**
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit-impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired (refer to as Stage 2)	Lifetime ECL — not credit-impaired
Default	Financial assets are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	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

The credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades are disclosed in note 23.

The carrying amount of the Group's financial asset at FVTPL as disclosed in note 21 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

6. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of loans from the immediate holding company.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has 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.

	At 31 December 2021				
	On demand or within 1 year RMB'000	**1–5 years RMB'000**	**>5 years RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying Amount RMB'000**
Non-derivative financial liabilities					
Trade and other payables	**18,072**	**—**	**—**	**18,072**	**18,072**
Amount due to immediate holding company	**—**	**3,200**	**215,275**	**218,475**	**18,253**
	18,072	**3,200**	**215,275**	**236,547**	**36,325**

	At 31 December 2020				
	On demand or within 1 year RMB'000	1–5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	15,102	—	—	15,102	15,102
Amount due to immediate holding company	—	2,400	216,075	218,475	16,236
	15,102	2,400	216,075	233,577	31,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

7. FAIR VALUE

The carrying amounts of financial instruments that are measured at fair value at the end of the reporting period for recurring measurement, based on the degree to which the fair value is observable in accordance to the Group's accounting policy are as follows:

	2021 **Level 2** **RMB'000**	2020 Level 2 RMB'000
Financial asset at FVTPL	**25,881**	24,757

There were no transfers between levels of fair value hierarchy in the current and prior years. The valuation technique and input used in the fair value measurement are set out below:

Financial Instrument	**Fair value hierarchy**	**Fair value as at 31/12/2021**	**Fair value as at 31/12/2020**	**Valuation technique and key input**
Fund investment	Level 2	RMB25,881,000	RMB24,757,000	By reference to the fair value of the underlying assets held by the investment through the ownership.

The directors of the Company consider that the carrying amounts of the current financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements, except for the amount due to immediate holding company, approximate to their fair values due to their short-term maturities.

The directors of the Company consider that the carrying amount of amount due to immediate holding company approximates to its fair values as the discounting effect was taken into consideration.

8. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the amounts received and receivable for goods sold and services rendered by the Group to external customers net of sales related taxes. An analysis of the Group's revenue and other income and gains for the year are as follows:

	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or services lines		
Manufacture and sale of woven fabrics	**93,263**	74,929
Subcontracting fee income	**4,921**	2,751
Investment advisory income	**—**	300
	98,184	77,980

Disaggregation of revenue from contracts with customers by timing of recognition

	2021	2020
	RMB'000	RMB'000
Timing of revenue recognition		
At a point in time	**93,263**	75,229
Over time	**4,921**	2,751
Total revenue from contract with customers	**98,184**	77,980

Transaction price allocated to the remaining performance obligations

The subcontracting and investment advisory service contracts are with an original expected duration of one year or less or contracts for which revenue is recognised at the amount to which that Group has the right to invoice for the services performed. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

8. REVENUE AND OTHER INCOME AND GAINS (Continued)

	2021	2020
	RMB'000	RMB'000
Other income and gains:		
Compensation income	**20**	101
Dividend from financial asset at FVTPL	**115**	313
Foreign exchange gains, net	**6**	3
Gain from change in fair value of financial asset at FVTPL	**1,124**	—
Gain on disposal of property, plant and equipment	**1,806**	—
Government subsidies (note 1)	**497**	616
Interest income	**108**	117
Refund of retirement benefit scheme contributions	**157**	234
Sales of scrap materials	**555**	118
Write-back of trade payables	**—**	453
Others (note 2)	**329**	482
	4,717	2,437

Notes:

(1) Government subsidies of RMB497,000 (2020: RMB616,000) was awarded to the Group during the year ended 31 December 2021 included (i) approximately RMB295,000 (2020: RMB247,000) for encouraging enterprise development and (ii) approximately RMB43,000 (2020: RMB130,000) represents subsidies award to the group for resumption of work and production after the epidemic has been under controlled. There is no unfulfilled condition or contingencies relating to these subsidies.

In 2020, the Group received a government subsidy of RMB1,589,000 for encouraging replacement of low productivity machinery and equipment. The amount has been treated as deferred income and the amount is transferred to other income over the useful lives of the relevant assets. This policy has resulted in a credit to income in the current period of RMB159,000 (2020: RMB239,000). As at 31 December 2021, an amount of RMB1,191,000 (2020: RMB1,350,000) remains to be amortised.

(2) Included in others, rental income of approximately RMB309,000 (2020: RMB309,000) is recognised. The Group leases out buildings under operating leases. The leases typically run for an initial period of 1 year. None of the leases includes variable lease payments.

9. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on the types of goods sold or services delivered or provided.

Specifically, the Group's reportable segments are as follows:

Woven fabrics	—	Manufacture and sale of woven fabrics
Subcontracting services	—	Provision of woven fabrics subcontracting services
Asset management	—	Asset management and investment advisory services

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

	For the year ended 31 December							
	Woven fabrics		Subcontracting services		Asset management		Total	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000	**2021 RMB'000**	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
Segment revenue	**93,263**	74,929	**4,921**	2,751	**—**	300	**98,184**	77,980
Segment result	**(3,259)**	(3,880)	**(1,906)**	(887)	**—**	(796)	**(5,165)**	(5,563)
Unallocated corporate income							**2,355**	1,866
Unallocated corporate expenses							**(12,142)**	(9,535)
Loss on disposal of a subsidiary							**—**	(2,536)
Share of result of an associate							**(5,908)**	(7,423)
Finance costs							**(2,017)**	(6,587)
Loss before taxation							**(22,877)**	(29,778)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit/(loss) represents the profit earned by/(loss from) each segment without allocation of certain other income, directors' remuneration, central administration costs, loss on disposal of a subsidiary, share of result of an associate and finance costs. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9. SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

As the assets and liabilities by segment is not a measure used by the Group's CODM to allocate resources and assess performance, the segment assets and liabilities of the Group are not reported to the Group's CODM regularly. As a result, reportable segment assets and liabilities have not been presented in the consolidated financial statements.

(c) Other segment information

Amounts included in the measure of segment profit or loss or segment assets:

	For the year ended 31 December									
	Woven fabrics		Subcontracting services		Asset management		Unallocated		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
— Addition to non-current assets (note)	**—**	—	**—**	—	**—**	—	**261**	123	**261**	123
— Depreciation of property, plant and equipment	**8,648**	9,143	**456**	336	**—**	—	**—**	—	**9,104**	9,479
— Depreciation of right-of-use assets	**179**	182	**9**	6	**—**	—	**—**	—	**188**	188
— Fair value (gain) loss on financial asset at FVTPL	**—**	—	**—**	—	**—**	—	**(1,124)**	732	**(1,124)**	732
— Impairment loss on trade receivables recognised in profit or loss	**2,953**	4,027	**—**	—	**—**	—	**—**	—	**2,953**	4,027
— Write-back of trade payables	**—**	(453)	**—**	—	**—**	—	**—**	—	**—**	(453)

Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:

— Income tax credit	**(4,057)**	(1,087)	**—**	—	**—**	—	**—**	—	**(4,057)**	(1,087)

Note: Non-current assets excluded financial instruments.

9. SEGMENT INFORMATION (Continued)

(d) Geographical information

Information about the Group's revenue from external customers is presented based on the location of the operation. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from contracts with customers		Non-current assets*	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC (country of domicile)	**85,829**	68,262	**158,838**	171,463
Europe	**7,780**	7,539	**—**	—
South America	**3,478**	740	**—**	—
Middle East	**110**	638	**—**	—
Other overseas	**987**	801	**—**	—
	98,184	77,980	**158,838**	171,463

* Non-current assets excluded financial instruments.

(e) Information about major customers

During the years ended 31 December 2021 and 2020, none of the Group's individual customer contributed more than 10% to the total revenue of the Group.

10. FINANCE COSTS

	2021	2020
	RMB'000	RMB'000
Imputed interest expense on interest-free loan due to immediate holding company (note 29)	**2,017**	6,587

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11. INCOME TAX CREDIT

	2021	2020
	RMB'000	RMB'000
Current taxation		
— PRC Enterprise Income Tax	**—**	(49)
Deferred taxation (note 28)		
— Current year	**4,057**	1,136
	4,057	1,087

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group is 25% for both years.

The income tax credit for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021	2020
	RMB'000	RMB'000
Loss before taxation	**22,877**	29,778
Tax at the domestic rate at 25% (2020: 25%)	**5,720**	7,445
Tax effect of share of result of an associate	**(1,477)**	(1,856)
Tax effect of income not taxable for tax purpose	**1,329**	763
Tax effect of expenses not deductible for tax purpose	**(1,141)**	(2,927)
Tax effect of tax losses not recognised	**(374)**	(2,338)
Income tax credit	**4,057**	1,087

Details of the deferred taxation are set out in note 28.

12. LOSS FOR THE YEAR

	2021 **RMB'000**	2020 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Staff cost (including supervisors', directors' and chief executive's emoluments):		
Salaries and wages	**18,858**	13,319
Retirement benefit scheme contributions	**2,399**	356
Total staff costs	**21,257**	13,675
Auditor's remuneration		
— Audit service	**669**	772
Cost of inventories recognised as an expense	**91,216**	72,180
Depreciation of property, plant and equipment	**9,104**	9,479
Depreciation of right-of-use assets	**188**	188
Impairment loss recognised in respect of trade receivables	**2,953**	4,027
Research and development costs recognised as an expense (note)	**1,998**	1,975
(Gain) loss from change in fair value of financial asset at FVTPL	**(1,124)**	732

Note: Research and development costs includes staff costs of approximately RMB1,998,000 (2020: approximately RMB1,975,000) which have been included in the staff costs as disclosed above.

13. LOSS PER SHARE

Basic and diluted loss per share for the year is calculated on the loss for the year of approximately RMB18,820,000 (2020: RMB28,691,000), and the weighted average of 1,063,500,000 (2020: 1,063,500,000) ordinary shares in issue during the year ended 31 December 2021.

There is no difference between basic and diluted loss per share as there were no potentially dilutive shares outstanding during the years ended 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

14. SUPERVISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the three (2020: three) supervisors, ten (2020: eight) directors and chief executive for the year ended 31 December 2021 were as follows:

For the year ended 31 December 2021

	Directors'/ Supervisors' fee RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Executive directors:					
Mr. Lou Lijiang (note (a))	**62**	**—**	**—**	**—**	**62**
Ms. He Lianfeng	**72**	**182**	**—**	**10**	**264**
Mr. Hu Hua Jun (note (e))	**60**	**—**	**—**	**—**	**60**
Mr. Wang Hengzhuang (note (b))	**327**	**—**	**—**	**—**	**327**
Non-executive director:					
Mr. Ma Jinsong	**360**	**—**	**—**	**—**	**360**
Independent non-executive directors:					
Mr. Yu Weidong (note (c))	**21**	**—**	**—**	**—**	**21**
Mr. Yuan Lingfeng (note (c))	**21**	**—**	**—**	**—**	**21**
Mr. Leng Peng (note (d))	**58**	**—**	**—**	**—**	**58**
Mr. Zhu Weizhou	**100**	**—**	**—**	**—**	**100**
Ms. Wu Yuejuan (note (d))	**58**	**—**	**—**	**—**	**58**
Supervisors:					
Ms. Wang Ai Yu (note (e))	**36**	**—**	**—**	**—**	**36**
Mr. Chen Wei	**—**	**108**	**—**	**4**	**112**
Mr. Pan Xing Biao	**12**	**—**	**—**	**—**	**12**
	1,187	**290**	**—**	**14**	**1,491**

14. SUPERVISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

For the year ended 31 December 2020

	Directors'/ Supervisors' fee RMB'000	Salaries and allowances RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
Executive directors:					
Mr. Wang Hengzhuang	540	—	—	—	540
Ms. He Lianfeng	72	182	—	10	264
Mr. Hu Hua Jun (note (e))	—	—	—	—	—
Non-executive director:					
Mr. Ma Jinsong	15	—	—	—	15
Independent non-executive directors:					
Mr. Song Ke (note (f))	67	—	—	—	67
Mr. Leng Peng	100	—	—	—	100
Mr. Zhu Weizhou	100	—	—	—	100
Ms. Wu Yuejuan (note (g))	33	—	—	—	33
Supervisors:					
Ms. Wang Ai Yu (note (e))	—	—	—	—	—
Mr. Chen Wei	—	96	—	4	100
Mr. Pan Xing Biao	12	—	—	—	12
	939	278	—	14	1,231

Notes:

(a) Mr. Lou Lijiang was appointed as executive director on 30 July 2021.
(b) Mr. Wang Hengzhuang resigned as executive director on 30 July 2021.
(c) Mr. Yu Weidong and Mr. Yuan Lingfeng were appointed as independent non-executive directors on 30 July 2021.
(d) Mr. Leng Peng and Ms. Wu Yuejuan resigned as independent non-executive directors on 30 July 2021.
(e) The annual fee of (i) Ms. Wang Ai Yu for the years ended 31 December 2020 and (ii) Mr. Hu Hua Jun for the year ended 31 December 2020 was paid by Zhejiang Yongli according to the terms of services contracts. No allocation of the remuneration between Zhejiang Yongli and the Group have been made during the years presented.
(f) Mr. Song Ke resigned as independent non-executive director on 8 September 2020.
(g) Ms. Wu Yuejuan was appointed as independent non-executive director on 8 September 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

14. SUPERVISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

Ms. He Lianfeng is also the chief executive of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive.

The discretionary bonus is determined by the remuneration committee having regard to the individual's performance and the Group's performance and profitability and the prevailing market conditions.

Mr. Ma Jinsong agreed to waive part of his emoluments of approximately RMB345,000 for the year ended 31 December 2020. No other supervisors, directors and chief executive waived or agreed to waive any emoluments for the years ended 31 December 2021 and 2020.

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiaries undertaking		**Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of affairs of the Company or its subsidiaries undertaking**		**Total**	
2021	2020	**2021**	2020	**2021**	2020
RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
1,139	927	**192**	192	**1,331**	1,119

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2020: two) of them were directors or supervisor of the Company whose emoluments are included in note 14 above. The emoluments of the remaining two (2020: three) individual for the year ended 31 December 2021 are as follows:

	2021	2020
	RMB'000	RMB'000
Salaries, allowances and other benefits in kind	**182**	407
Retirement benefits schemes contributions	**—**	1
	182	408

Their emoluments were within the following band:

	No. of individuals	
	2021	2020
Nil to HK$1,000,000	**2**	3

No emoluments were paid or payable by the Group to the five highest paid individuals and directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2021 and 2020.

16. DIVIDEND

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

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings at revalued amounts RMB'000	**Motor vehicles** RMB'000	**Plant and machinery** RMB'000	**Furniture, fixtures and equipment** RMB'000	**Total** RMB'000
COST/VALUATION					
At 1 January 2020	93,112	335	151,212	3,425	248,084
Additions	—	—	—	123	123
Write-off	—	—	—	(29)	(29)
Adjustment on revaluation, net	(3,037)	—	—	—	(3,037)
At 31 December 2020 and 1 January 2021	90,075	335	151,212	3,519	245,141
Additions	**—**	**—**	**—**	**261**	**261**
Disposal	**—**	**—**	**(23,378)**	**—**	**(23,378)**
Adjustment on revaluation, net	**(2,976)**	**—**	**—**	**—**	**(2,976)**
At 31 December 2021	**87,099**	**335**	**127,834**	**3,780**	**219,048**
ACCUMULATED DEPRECIATION					
At 1 January 2020	—	335	119,983	1,841	122,159
Provided for the year	5,466	—	3,758	255	9,479
Eliminated on write-off	—	—	—	(29)	(29)
Eliminated on revaluation	(5,466)	—	—	—	(5,466)
At 31 December 2020 and 1 January 2021	—	335	123,741	2,067	126,143
Provided for the year	**5,290**	**—**	**3,555**	**259**	**9,104**
Eliminated on disposal	**—**	**—**	**(23,378)**	**—**	**(23,378)**
Eliminated on revaluation	**(5,290)**	**—**	**—**	**—**	**(5,290)**
At 31 December 2021	**—**	**335**	**103,918**	**2,326**	**106,579**
CARRYING VALUES					
At 31 December 2021	**87,099**	**—**	**23,916**	**1,454**	**112,469**
At 31 December 2020	90,075	—	27,471	1,452	118,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives less their residual values as follows:

Buildings	Over the shorter of the term of the lease or 20 years
Motor vehicles	5 years
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years

Owned buildings of the Group are revalued on 31 December 2021 and 2020 by Avista Valuation Advisory Limited ("Avista"), an independent qualified professional valuer not connected with the Group. Avista has appropriate qualifications and has recent experiences in the valuation of similar properties in the relevant locations. The valuations have been arrived at using replacement cost approach.

The Group's finance department reviews the valuations for owned buildings performed by independent qualified professional valuer for financial reporting purposes. The Group's finance department reports directly to the board of directors. Discussion of valuation processes and results are held between the Group's finance department and valuer annually.

The buildings are held in the PRC under medium-term lease.

If the owned buildings had not been revalued, they would have been included in the consolidated financial statements at historical cost less accumulated depreciation of approximately RMB31,867,997 (2020: RMB33,037,513).

Fair value measurement of the Group's owned buildings

The fair value of the owned buildings was determined using the replacement cost approach. Fair value which determined by using replacement cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. There has been no change to the valuation technique for both years.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Details of the Group's owned buildings and information about the fair value hierarchy as at 31 December 2021 and 2020 are as follows:

Property, plant and Equipment	Fair value	Fair value Hierarchy	Valuation technique	Significant unobservable inputs	Relationship of key inputs and significant unobservable inputs to fair value
Buildings in the PRC	RMB87,099,000 (2020: RMB90,075,000)	Level 3	Replacement cost	Rate of obsolescence to adjust the replacement cost, which ranged from 15% to 90% (2020: 15% to 92%) based on the utilisation, specialty in nature and age of the buildings	The higher the rate of obsolescence, the lower the fair value

There were no transfers into or out of Level 3 during the year.

The reconciliation of Level 3 fair value measurements of buildings on recurring basis is as follow:

	2021 RMB'000	2020 RMB'000
At 1 January	**90,075**	93,112
Increase in fair value recognised in other comprehensive income	**2,314**	2,429
Depreciation expense	**(5,290)**	(5,466)
At 31 December	**87,099**	90,075

During the year ended 31 December 2021, the increase in fair value recognised in other comprehensive income of approximately RMB2,314,000 (2020: RMB2,429,000) is included in asset revaluation reserve and is attributable to the change in unrealised gains or losses relating to buildings measured at fair value held at the end of the reporting period.

As at 31 December 2021, the Group has not obtained the building ownership certificate for buildings with carrying values of approximately RMB16,168,000 (2020: RMB16,621,000) from the relevant PRC government authorities. Based on the legal advice from the Group's lawyer, the absence of formal title to these properties does not impair their values of the Group as the Group has paid the full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. LEASES

(i) Right-of-use assets

	2021	2020
	RMB'000	RMB'000
Land	**5,704**	5,892

Right-of-use assets represent land use rights located in the PRC.

(ii) Amount recognised in profit or loss

	2021	2020
	RMB'000	RMB'000
Depreciation of right-of-use assets	**188**	188

19. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2020	1,230
Eliminated on disposal of a subsidiary	(1,230)
At 31 December 2020, 1 January 2021 and 31 December 2021	—

20. INTEREST IN AN ASSOCIATE

	2021 RMB'000	2020 RMB'000
Cost of investment in an associate	**90,000**	90,000
Share of post-acquisition losses and other comprehensive expense	**(18,096)**	(12,188)
	71,904	77,812
Accumulated impairment losses	**(31,239)**	(31,239)
	40,665	46,573

The Group had 41.67% equity interest of 北京太比雅科技股份有限公司 (Beijing Tepia Technology Co., Ltd.*) ("Beijing Tepia") (representing 60,000,000 shares of Beijing Tepia), a company incorporated in the PRC with its shares trading on the National Equities Exchange and Quotations ("NEEQ"). The quoted price of Beijing Tepia as in NEEQ at 31 December 2021 is RMB3.34 (2020: RMB3.34) per share.

As at 31 December 2021 and 2020, the Group had interest in the following material associate:

Name of entity	Form of legal entity	Country of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interests held by the Group		Proportion of voting power held		Principal activities
					2021	2020	**2021**	2020	
Beijing Tepia and its subsidiaries	Limited liability company	PRC	PRC	Ordinary	**41.67%**	41.67%	**41.67%**	41.67%	Provide information planning and design, software development, system integration and project-based systems operation and maintenance services for water management systems

The above table lists the associate of the Group which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

** For identification purpose only*

The recoverable amount calculation uses cash flow projections based on financial budgets approved by the management covering a 6-year (2020: 7-year) period, and discount rate of 18% (2020: 17%). The associate's cash flows beyond the 6-year (2020: 7-year) period are extrapolated using a steady 3% (2020: 3%) growth rate. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and cost, such estimation is based on the associate's past performance and management's expectations for the market development. During the year ended 31 December 2021, no impairment loss (2020: nil) is recognised.

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20. INTEREST IN AN ASSOCIATE (Continued)

The summarised financial information in respect of the associate that is material to the Group and is accounted for using equity method is set out below:

Beijing Tepia

	2021 **RMB'000**	2020 RMB'000
Current assets	**88,627**	99,959
Non-current assets	**6,480**	7,835
Current liabilities	**15,072**	13,555
Non-current liabilities	**257**	283

	Year ended **31 December** **2021** **RMB'000**	Year ended 31 December 2020 RMB'000
Revenue	**28,415**	36,668
Loss for the year	**(14,177)**	(17,813)
Total comprehensive expense for the year	**(14,177)**	(17,813)

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in an associate is set out below:

	2021 **RMB'000**	2020 RMB'000
Net assets of the associate	**79,778**	93,956
Proportion of the Group's ownership in Beijing Tepia	**41.67%**	41.67%
Goodwill	**7,422**	7,422
Carrying amount of the Group's interest in Beijing Tepia	**40,665**	46,573

21. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
	RMB'000	RMB'000
Financial asset at FVTPL comprise:		
Unlisted fund investment in the PRC	**25,881**	24,757

The fair value of this investment is disclosed in note 7.

22. INVENTORIES

	2021	2020
	RMB'000	RMB'000
Raw materials	**1,336**	1,790
Work in progress	**11,692**	8,641
Finished goods	**14,943**	25,077
	27,971	35,508

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23. TRADE AND OTHER RECEIVABLES

	2021	2020
	RMB'000	RMB'000
Trade receivables	**32,256**	29,222
Less: Allowance for impairment of trade receivables	**(9,331)**	(6,378)
	22,925	22,844
Other receivables		
Prepayments to suppliers	**9,235**	2,217
Other tax recoverable	**—**	196
Other receivables	**1,069**	757
Consideration receivables	**—**	3,930
	10,304	7,100
Total trade and other receivables	**33,229**	29,944

As at 1 January 2020, gross amount of trade receivables from contract with customer amounted to approximately RMB24,515,000.

As at 31 December 2021, the gross amount of trade receivable arising from contract with customers amounted to approximately RMB32,256,000 (2020: RMB29,222,000).

The Group allows an average credit period of 60 days to 180 days (2020: 60 days to 180 days) to its trade customers. The Group does not hold any collateral or other credit enhancements over its trade and other receivables.

An aged analysis of trade receivable, net of allowance for impairment of trade receivables and presented based on the revenue recognition dates, at the end of the reporting period is as follows:

	2021	2020
	RMB'000	RMB'000
0 – 60 days	**18,567**	18,367
61 – 90 days	**411**	328
91 – 120 days	**50**	256
121 – 365 days	**3,897**	3,893
	22,925	22,844

23. TRADE AND OTHER RECEIVABLES (Continued)

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Due to the financial uncertainty arising from COVID-19, the Group has increased the expected loss rate for trade receivable based on their judgment as to the impact of COVID-19 on certain individual debtors.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on the individually significant customer or the ageing of customers collectively that are not individually significant as follows:

As at 31 December 2021	**Weighted average expected loss rate %**	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**19.64**	**23,679**	**4,653**
Less than 60 days past due	**36.76**	**756**	**278**
61–90 days past due	**38.32**	**1,034**	**396**
91–365 days past due	**38.31**	**4,511**	**1,728**
Over 365 days past due	**100**	**2,276**	**2,276**
		32,256	**9,331**

As at 31 December 2020	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	6.47	19,639	1,272
Less than 60 days past due	12.01	373	45
61–90 days past due	12.93	294	38
91–365 days past due	24.50	5,156	1,263
Over 365 days past due	100	3,760	3,760
		29,222	6,378

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For the year ended 31 December 2021

23. TRADE AND OTHER RECEIVABLES (Continued)

The movements in allowance for impairment of trade receivables are as follows:

	2021 RMB'000	2020 RMB'000
At the beginning of the year	**6,378**	2,351
Impairment loss recognised on trade receivables	**2,953**	4,027
At the end of the year	**9,331**	6,378

The increase in past due balances and the weighted average expected loss rates resulted in increase in loss allowance of approximately RMB2,953,000 in 2021.

Included in the trade receivables are the following amounts denominated in a currency other than the functional currency of the group entity:

	2021 RMB'000	2020 RMB'000
US$	**3,980**	1,536

Included in other receivables as at 31 December 2021, balance of approximately RMB690,000 (2020: RMB626,000) is amount due from a related company in relation to certain property, plant and equipment renting to related company. The balance is unsecured, interest-free and repayable upon invoice issued.

24. BANK BALANCES AND CASH

For the years ended 31 December 2021 and 2020, bank balances represented short-term deposits with a maturity of three months or less. The interest rate ranged from 0.3% to 1.35% per annum (2020: 0.3% to 1.35% per annum).

Included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective group entity:

	2021 RMB'000	2020 RMB'000
US$	**600**	594

25. TRADE AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables (notes i and ii)	**12,661**	9,068
Other tax payables	**2,480**	2,528
Accrued expenses and other payables	**5,411**	6,034
	20,552	17,630

Notes:

(i) The Group normally receives credit periods from suppliers ranging from 30 days to 90 days (2020: 30 days to 90 days). The Group has in place financial risk management policies to ensure that all payables are settled within the credit timeframe.

(ii) An aged analysis of the trade payables at the end of the reporting period based on the invoice date is as follows:

	2021 RMB'000	2020 RMB'000
0–60 days	**7,146**	4,024
61–90 days	**947**	1,389
91–365 days	**2,031**	705
Over 365 days	**2,537**	2,950
	12,661	9,068

26. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Sales of woven fabrics	**7,945**	8,587

As at 1 January 2020, contract liabilities amounted to approximately RMB2,065,000.

Contract liabilities include advances received to sales of woven fabrics and render subcontracting services.

The Group receives range from 10% to 20% of the contract values as deposits from new customers when they sign the contracts for sales of woven fabrics and render subcontracting services.

Revenue recognised during the year ended 31 December 2021 that was included in the contract liabilities as the beginning of the year is approximately RMB8,587,000 (2020: RMB2,065,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

27. RETIREMENT BENEFITS PLANS

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement benefit schemes for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement benefit scheme is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement benefit scheme, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2021, the total amount contributed by the Group to this scheme and charged to the consolidated statement of profit or loss and other comprehensive income was approximately RMB2,399,000 (2020: RMB356,000).

28. DEFERRED TAX LIABILITIES

Major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years are set out as follows:

	Revaluation of properties	**Impairment loss recognised in respect of trade receivables**	**Allowance of inventories**	**Fair value change of financial assets at FVTOCI**	**Accumulated tax losses**	**Fair value change of financial assets at FVTPL**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	(18,244)	5,675	1,218	(117)	—	(97)	(11,565)
Credited to profit or loss	—	952	—	—	—	184	1,136
Charged to other comprehensive income	(607)	—	—	—	—	—	(607)
Disposal of a subsidiary (Note 32)	—	—	—	117	—	—	117
At 31 December 2020 and 1 January 2021	(18,851)	6,627	1,218	—	—	87	(10,919)
Credited/(charged) to profit or loss	**—**	**738**	**—**	**—**	**3,600**	**(281)**	**4,057**
Charged to other comprehensive income	**(579)**	**—**	**—**	**—**	**—**	**—**	**(579)**
At 31 December 2021	**(19,430)**	**7,365**	**1,218**	**—**	**3,600**	**(194)**	**(7,441)**

At the end of the reporting period, the Group has unused tax losses of approximately RMB29,341,000 (2020: RMB17,426,000) available for offset against future profits. Deferred tax asset of approximately RMB3,600,000 has been recognised in respect of tax losses of approximately RMB14,400,000 (2020: nil). All unused tax losses will be expired at the fifth year from the year that incurred.

29. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

On 23 December 2016, Zhejiang Yongli entered into an agreement of assignment of debt with Guizhou Yongli ("Assignment of Debt Agreement"), pursuant to which, the debt of approximately RMB239,677,000 owed by the Company to Zhejiang Yongli was assigned to Guizhou Yongli and Guizhou Yongli committed to continue the obligations and commitments under the original debt agreement that was entered into between the Company and Zhejiang Yongli on 13 September 2011.

Referring to the principal advances of approximately RMB239,677,000 in relation to the Assignment of Debt Agreement entered into on 23 December 2016, it had been initially reduced to its present value of approximately RMB20,724,000 based on the management's estimates of future cash payments with a corresponding adjustment of approximately RMB218,953,000, which was deemed contribution from the immediate holding company during the year ended 31 December 2016. The effective interest rate adopted for measurement at fair value at initial recognition of the advances from immediate holding company for the year was determined with reference to the prevailing market rates of interest for similar instruments with similar credit ratings and with reference to the timing and repayment based on the cash flow of the Company in the year ended 31 December 2016. Imputed interest on these advances had been computed at an original effective interest rate of 18.22%. The amount is unsecured, interest-free and repayable of an amount which does not exceed 50% of the Company's operating cash flow for current year on an annual basis until the full repayment of the debt.

Imputed interest on these advances had been computed at an original effective interest rate of 12.42% (2020: 12.42%). The amount is unsecured, interest-free.

On 30 November 2020, the Company and Guizhou Yongli entered into a supplemental debt agreement, pursuant to which it was agreed that, subject to the fulfilment of conditions precedent, the repayment terms of the remaining principle is revised as follows:

(a) No repayment will be required in the first and second year from the date of this supplementary agreement (ie. whole year 2021 and 2022);

(b) From the third to the seventh year from the date of this supplementary agreement (ie. from year 2023 to 2027), a fixed repayment of RMB800,000 has to be repaid on or before 31 March of each year;

(c) From the year 2028 and onwards, the repayment shall not exceed 50% of the Company's operating cash flow for current year on an annual basis until the full repayment of the debt.

Save for the above alterations, all other terms and conditions of the remaining advances from immediate holding company remained unchanged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

29. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY (Continued)

The modification of the repayment terms resulted in the extinguishment of the financial liability of the amount due to immediate holding company and the recognition of new financial liability.

On 30 November 2020, the carrying values of amount due to immediate holding company immediately before the modification were approximately RMB33,899,000. According to a valuation report issued by an independent valuer not connected with the Group, the fair values of the new liability immediately following the modification are approximately RMB16,076,000. These caused an increase of approximately RMB17,823,000 in other reserve in the consolidated statement of changes in equity impact during the year ended 31 December 2020.

During the year ended 31 December 2021, the Group did not repay any principal (2020: RMB11,000,000).

Subsequent to the end of the reporting period, the Company, Guizhou Yongli and Zhejiang Yongli entered into another supplemental debt repayment agreement ("Second Supplemental Debt Repayment Agreement") to restructure the debt repayment in respect of amount due to immediate holding company. The Second Supplemental Debt Repayment Agreement is subject to approval in extraordinary general meeting of the Company. For further details, please refer to the announcement of the Company dated 31 March 2022.

30. SHARE CAPITAL

Details of the share capital of the Company of RMB0.10 each are as follows:

	Number of shares ’000	RMB’000
Domestic shares at 1 January 2020, 31 December 2020 and 31 December 2021	588,000	58,800
H shares at 1 January 2020, 31 December 2020 and 31 December 2021	475,500	47,550
Total share capital of RMB0.10 each at 1 January 2020, 31 December 2020 and 31 December 2021	1,063,500	106,350

The domestic shares and H shares carry the same rights to dividends, receive notice of attender vote at any general meeting of the Company or to participate in any distribution on winding up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

31. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in the consolidated financial statements, the Group entered into transactions with related parties as follows:

Related party	Relationship	Nature of transaction	Notes	2021 RMB'000	2020 RMB'000
Zhejiang Yongli	Ultimate holding company	Electricity charge	(i), (ii)	**10,436**	10,013
		Aggregated cash advance to	(i)	**247,710**	—
		Aggregated cash repayment from	(i)	**247,710**	—
浙江永和建材有限公司 (Zhejiang Yonghe Building Materials Co., Ltd.)	Fellow subsidiary	Sales of goods	(v)	**16**	—
浙江紹興永利印染有限公司 (Zhejiang Shaoxing Yongli Dyeing Co., Ltd.*)	Fellow subsidiary	Dyeing service	(i), (iii)	**610**	186
浙江永利家紡科技有限公司 (Zhejiang Yongli Hometextile Technology Co., Ltd.)	Fellow subsidiary	Sales of goods	(v)	**2**	—
浙江永利經編股份有限公司 (Zhejiang Yongli Warp Knitting Co., Ltd.)	Fellow subsidiary	Sales of goods	(v)	**4**	—
紹興虹利化纖有限公司 (Shaoxing Hongli Fiber Co., Ltd.*)	Related company	Rental income	(i)	**309**	309
		Raw material	(i), (iv)	**6**	—

Notes:

(i) These transactions were carried out at the terms determined and agreed by the Group and relevant parties.

(ii) The electricity charges were made on behalf of the Group based on the actual cost incurred.

(iii) The dyeing services was provided to the Group for the usage in the production.

(iv) The raw materials were sold to the Group for usage in the production.

(v) The finished goods were sold by the Group.

(b) Compensation of key management personnel

The directors of the Company and the supervisors and chief executive of the Group are regarded as key management of the Group. Compensation paid or payable to them is disclosed in note 14.

The remuneration of directors and members of key management are determined by the remuneration committee having regard to the performance of individuals and market trends.

The aforesaid transactions were in the ordinary course of business of the Group.

* *English name is for identification only*

32. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2020, pursuant to sale and purchase agreements dated 26 May 2020, the Group agreed to dispose of the 100% equity interests in 貴州恒永晟投資管理有限公司 (Guizhou Anheng Yongcheng Investment Management Co., Ltd*)("Guizhou Anheng") to two independent third parties of the Group for a total consideration of RMB5,930,000.

Consideration received	RMB'000
Cash received	2,000
Deferred cash consideration	3,930
Total consideration received	5,930

Analysis of assets and liabilities over which control was lost:

	RMB'000
Goodwill	1,230
Financial assets at FVTOCI	1,065
Prepayments	1,019
Bank balances and cash	5,302
Other payables	(33)
Deferred tax liabilities	(117)
Net assets disposed of	8,466

Loss on disposal of a subsidiary	RMB'000
Consideration received and receivable	5,930
Net assets disposed of	(8,466)
Loss on disposal	(2,536)

Net cash inflow arising on disposal:	RMB'000
Cash consideration received	2,000
Less: bank balances and cash disposed of	(5,302)
	(3,302)

33. 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 statement of cash flows as cash flows from financing activities.

	Amount due to immediate holding company RMB'000
At 1 January 2020	38,472
Financing cash outflows	(11,000)
Non-cash change	
— Finance cost incurred	6,587
— Modification of amount due to immediate holding company*	(17,823)
At 31 December 2020 and 1 January 2021	16,236
Financing cash outflows	—
Non-cash change	
— Finance cost incurred	2,017
At 31 December 2021	18,253

* It represents the modification of repayment terms, for details, please refer to note 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2021 RMB'000**	2020 RMB'000
Non-current assets			
Property, plant and equipment		**88,956**	92,308
Right-of-use assets		**5,704**	5,892
Investments in subsidiaries	(a)	**16,897**	20,417
Financial asset at FVTPL		**25,881**	24,757
		137,438	143,374
Current assets			
Inventories		**27,027**	33,914
Trade and other receivables		**32,602**	28,052
Amounts due from subsidiaries	(b)	**42,935**	51,689
Bank balances and cash		**30,647**	30,842
		133,211	144,497
Current liabilities			
Trade and other payables		**18,010**	14,416
Contract liabilities		**7,885**	8,417
Tax payable		**334**	329
		26,229	23,162
Net current assets		**106,982**	121,335
Total assets less current liabilities		**244,420**	264,709
Non-current liabilities			
Deferred tax liabilities		**7,435**	10,919
Amount due to immediate holding company		**18,253**	16,236
		25,688	27,155
Net assets		**218,732**	237,554
Capital and reserves			
Share capital	30	**106,350**	106,350
Share premium and reserves	(c)	**112,382**	131,204
		218,732	237,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) Particulars of all subsidiaries of the Company

Name of subsidiary	Place of incorporation	Paid up ordinary share capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2021	2020	**2021**	2020	
Guizhou Anheng**(note (i))	PRC	RMB10,000,000 (2020: RMB10,000,000)	**—**	—	**—**	—	Asset management and consulting services
深圳永安慧聚水務科技有限公司** (Shenzhen Yongan Huiju Water Technology Co., Ltd.*)	PRC	RMB44,300,000 (2020: RMB43,420,000)	**100%**	100%	**—**	—	Research and Development of water resources & related equipments
浙江永譽紡織有限責任公司^ (Zhejiang Yongyu Textile Co., Ltd.*)	PRC	RMB20,000,000 (2020: RMB20,000,000)	**100%**	100%	**—**	—	Manufacturing and trading of woven fabrics
YongAn HuaiRen Business Consulting Co., Limited (note (i))	Hong Kong	HK$23,400,000 (2020: HK$23,400,000)	**—**	—	**—**	—	Not commence business yet
浙江紹興尚譽紡織品進出口有限責任公司 ** (Zhejiang Shaoxing Shangyu Textiles Import and Export Co., Ltd.*)	PRC	RMB100,000 (2020: nil)	**—**	—	**100%**	100%	Not commence business yet

** These subsidiaries were registered in the PRC with limited liability.

^ The subsidiary was registered as wholly-owned foreign enterprise under the PRC law.

None of the subsidiaries have non-controlling interests that are material to the Group.

None of the subsidiaries had issued any debt securities at the end of the years.

Note:

(i) These subsidiaries were disposed of during the year ended 31 December 2020.

* *English name is for identification only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes: (Continued)

(b) The balances are unsecured, interest-free and repayable on demand.

(c) The movement of share premium and reserves is shown as follows:

	Share Premium RMB'000	**Other reserve** RMB'000	**Asset revaluation reserve** RMB'000	**Statutory surplus Reserve** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2020	69,637	331,664	41,713	12,496	(317,032)	138,478
Loss for the year	—	—	—	—	(26,919)	(26,919)
Gain on revaluation of properties, net of tax	—	—	1,822	—	—	1,822
Other comprehensive income for the year	—	—	1,822	—	—	1,822
Total comprehensive income (expense) for the year	—	—	1,822	—	(26,919)	(25,097)
Recognition upon modification of terms of amount due to immediate holding company	—	17,823	—	—	—	17,823
At 31 December 2020 and 1 January 2021	69,637	349,487	43,535	12,496	(343,951)	131,204
Loss for the year	—	—	—	—	(20,557)	(20,557)
Gain on revaluation of properties, net of tax	—	—	1,735	—	—	1,735
Other comprehensive income for the year	**—**	**—**	**1,735**	**—**	**—**	**1,735**
Total comprehensive income (expense) for the year	**—**	**—**	**1,735**	**—**	**(20,557)**	**(18,822)**
At 31 December 2021	**69,637**	**349,487**	**45,270**	**12,496**	**(364,508)**	**112,382**

35. EVENTS AFTER THE REPORTING PERIOD

On 1 September 2017, the Company entered into the limited partnership agreement dated 1 September 2017 ("**Limited Partnership Agreement**") with various parties for establishment of 深圳南山金融科技雙創股權投資基金合夥企業(有限合夥) (Shenzhen Nanshan Fintech Entrepreneurship and Innovation Equity Investment Fund Partnership Enterprise (Limited Liability Partnership)*) (the "**Limited Partnership**" or the "**Fund**")), details of the transactions were disclosed in the announcements dated 1 September 2017 and 9 November 2017, and circular dated 27 September 2017. According to the terms of the Limited Partnership Agreement, the duration period of the Fund is seven years from the date of establishment of the Limited Partnership (i.e. from 1 September 2017 to 30 August 2024) extendable to an aggregate period of not more than 10 years upon an unanimous consent of all partners for such extension. The investment period would be the first four years of the duration of the Limited Partnership, i.e. from 1 September 2017 to 30 August 2021. After the investment period, it would be the payback period for the remaining duration of the Limited Partnership, and the Limited Partnership shall not make any further investment during the payback period. Due to the impact of the COVID-19 epidemic, the private equity funds in the PRC tend to be more cautious and exercise higher level of diligence in identifying investment projects. In this regard, the Limited Partnership decided not to extend the investment period and planned to return the initial investment fund to the limited partners. The existing investment projects of the Limited Partnership will continue to be operated until the date of redemption. As at 31 December 2021, the Fund which was recorded as financial asset at fair value through profit or loss amounted to approximately RMB25,881,000. In February 2022, the Limited Partnership held a meeting and announced to refund the initial investment fund to the limited partners after deduction of the management fee up to the last remaining date of the duration of the Fund, i.e. 30 August 2024. On 28 March 2022, the Company received approximately RMB18 million of the initial investment fund from the Limited Partnership.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**98,184**	77,980	134,537	151,288	159,442
LOSS BEFORE TAXATION	**(22,877)**	(29,778)	(49,070)	(3,069)	(1,246)
TAXATION	**4,057**	1,087	(96)	(502)	(963)
LOSS FOR THE YEAR	**(18,820)**	(28,691)	(49,166)	(3,571)	(2,209)

ASSETS AND LIABILITIES

	At 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**276,887**	293,307	331,951	367,690	386,511
TOTAL LIABILITIES	**(55,716)**	(55,051)	(84,649)	(73,461)	(89,640)
SHAREHOLDERS' EQUITY	**221,171**	238,256	247,302	294,229	296,871

Note: The summary of the results and the assets and liabilities of the Group for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 are extracted from the audited consolidated financial statements.