

**INDEPENDENT AUDITOR'S ASSURANCE REPORT
TO THE DIRECTORS OF HONG KONG OYSTER COMPANY LIMITED**

**PROJECT ACCOUNTS
FOR THE PERIOD FROM 1 AUGUST 2019 TO 31 JULY 2020**

INDEPENDENT AUDITOR'S ASSURANCE REPORT

TO THE DIRECTORS OF HONG KONG OYSTER COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

Pursuant to the agreement made between the Government of the Hong Kong Special Administrative Region ("HKSAR") and Hong Kong Oyster Company Limited, and the Sustainable Fisheries Development Fund ("SFDF") - Application Guidelines in respect of the SFDF project under the SFDF dated 18 July 2017 (the "Agreement") and the supplemental agreement dated 2 March 2018, we have undertaken a reasonable assurance engagement on the final accounts of 淨化生蠔項目計劃 (Oyster Purification Project) (the "Project") (Project number: SFDF – 0013) as set out on pages 3 to 9 which comprise the statement of financial position as at 31 July 2020, and the income and expenditure statement and statement of cash flows for the period from 1 August 2019 to 31 July 2020, and notes to the accounts ("Project Accounts"), which are prepared in accordance with Note 1 to the Project Accounts.

Director's responsibilities

Pursuant to the Agreement, the directors are to comply with the requirements (including the requirements to keep proper books and records and to prepare proper Project Accounts), and all the terms and conditions of SFDF, as specified in the following documents:

- (a) the Agreement in respect of the Project and the appendices thereto (which include the Project proposal) and the supplemental agreement dated 2 March 2018;
- (b) the relevant "SFDF - Application Guidelines" referred to in the Agreement; and
- (c) all instructions and correspondences issued by the Director of Agriculture, Fisheries and Conservation ("DAFC") to Hong Kong Oyster Company Limited in respect of the Project.

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express an opinion on the Project Accounts, based on our work performed and to report our opinion.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the HKICPA and with reference to the Notes for Auditors of Recipient Organisations issued in August 2020 by the SFDF Secretariat (the "Notes"). We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

INDEPENDENT AUDITOR'S ASSURANCE REPORT

TO THE DIRECTORS OF HONG KONG OYSTER COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

Our engagement includes performing the procedures set out in the Notes and examination, on a test basis, of evidence supporting the requirements (including the requirements to keep proper books and records and to prepare proper Project Accounts), and all the terms and conditions of SFDF, as specified in the documents mentioned in the Directors' Responsibilities section have been complied with, in all material respects.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

Based on the foregoing, in our opinion, Hong Kong Oyster Company Limited has complied with, in all material respects, the requirements set by DAFC (including the requirements to keep proper books and records and to prepare proper Project Accounts), and all the terms and conditions of SFDF, as specified in the documents mentioned in the Directors' Responsibilities section.

Material uncertainty related to going concern

We draw attention to Note 1 to the financial statements which describes the material uncertainty about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Intended users and purpose

This report is intended for filing with the Government of the HKSAR pursuant to the Agreement and is not intended to be, and should not be, distributed to or used by, anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report.

Certified Public Accountant

Hong Kong, 1 June 2023



Project Title: Oyster Purification Project (淨化生蠔項目計劃)

Project No.: 0013

Project Commencement: 1 August 2017

Project Completion: 31 July 2020

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2020

	Notes	2020 HKD	2019 HKD
ASSETS			
Current assets			
Cash and bank balances	3	35,893	8,018
Inventories	4	4,279	20,430
Accounts and other receivables		12,700	18,198
		<u>52,872</u>	<u>46,646</u>
Non-current assets			
Property, plant and equipment	5	<u>1,953,891</u>	<u>2,630,524</u>
Total assets		<u>2,006,763</u>	<u>2,677,170</u>
LIABILITIES			
Current liabilities			
Accounts payable and accruals		930,172	889,365
Due to a shareholder	6	<u>2,679,267</u>	<u>1,638,959</u>
		<u>3,609,439</u>	<u>2,528,324</u>
Non-current liabilities			
Loan from a shareholder	7	2,000,000	2,000,000
Government grant - secured	8	<u>2,000,000</u>	<u>2,000,000</u>
		<u>4,000,000</u>	<u>4,000,000</u>
Total liabilities		<u>7,609,439</u>	<u>6,528,324</u>
ACCUMULATED DEFICIT		<u>(5,602,676)</u>	<u>(3,851,154)</u>

Approved and authorised for issue on behalf of Hong Kong Oyster Company Limited on

01 JUN 2023

[Redacted Signature]

[Redacted Signature]

THE NOTES ON PAGES 6 TO 9 FORM PART OF THESE ACCOUNTS.

Project Title: Oyster Purification Project (淨化生蠔項目計劃)

Project No.: 0013

Project Commencement: 1 August 2017

Project Completion: 31 July 2020

**INCOME AND EXPENDITURE STATEMENT
FOR THE PERIOD FROM 1 AUGUST 2019 to 31 JULY 2020**

	Notes	Original Budget*	Approved Variation	Adjusted Budget	Accumulated Actual	Current Period Actual	Last Period Actual
		HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
INCOME							
1. Oyster meat		7,485,000	-	7,485,000	176,103	83,810	92,293
2. Prepackaged shucked oysters		9,843,750	-	9,843,750	526,928	119,274	407,654
3. Oysters in shells		1,305,000	-	1,305,000	999,367	654,008	345,359
Other income		-	-	-	10,471	7,322	2,859
TOTAL INCOME		18,633,750	-	18,633,750	1,712,869	864,414	848,165
EXPENDITURE							
1. Oyster		(8,208,000)	-	(8,208,000)	(2,288,845)	(1,082,382)	(1,081,379)
2. Quality control tests		(921,250)	-	(921,250)	(58,842)	-	(15,379)
3. Supervisor		(1,314,000)	-	(1,314,000)	(739,873)	(219,000)	(152,000)
4. Finance Officer		(623,700)	-	(623,700)	(499,477)	(135,912)	(186,900)
5. Artisan		(623,700)	-	(623,700)	(359,100)	(79,800)	(239,400)
6. Sales representative		(623,700)	-	(623,700)	(272,069)	-	(79,380)
7. Workmen		(759,000)	-	(759,000)	(381,918)	(110,250)	(173,493)
10. Packaging materials		(290,025)	-	(290,025)	(18,950)	(1,050)	(17,900)
11. Transportation		(1,044,000)	-	(1,044,000)	(29,034)	(10,877)	(16,613)
12. Promotion Cost		(427,500)	-	(427,500)	(326,001)	(2,000)	(179,058)
13. Administration Fee		(96,000)	-	(96,000)	(77,600)	(32,691)	(38,399)
14. Water & Electricity Exp		(534,375)	-	(534,375)	(478,887)	(214,059)	(233,368)
15. Rent, Maintenance & Misc Exp		(869,970)	-	(869,970)	(335,380)	(51,282)	(144,143)
16. Tax		(219,579)	-	(219,579)	-	-	-
Depreciation	5	-	-	-	(1,449,569)	(676,633)	(629,344)
TOTAL EXPENDITURE		(16,554,799)	-	(16,554,799)	(7,315,545)	(2,615,936)	(3,186,756)
SURPLUS / (DEFICIT)		2,078,951	-	2,078,951	(5,602,676)	(1,751,522)	(2,338,591)

* Per Schedule II of the Agreement signed with the Government dated 18 July 2017

Project Title: Oyster Purification Project (淨化生蠔項目計劃)

Project No.: 0013

Project Commencement: 1 August 2017

Project Completion: 31 July 2020

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 AUGUST 2019 to 31 JULY 2020

	<i>Notes</i>	Period from 1/8/2019 to 31/7/2020 HKD	Period from 1/8/2018 to 31/7/2019 HKD
Cash flows from operating activities			
Deficit before tax		(1,751,522)	(2,338,591)
Adjustments for non-operating or non-cash items -			
Depreciation	5	676,633	629,344
Gain on disposal of property, plant and equipment		-	(1,559)
Interest income		(1)	(31)
Changes in working capital -			
(Increase)/ decrease in inventories		16,151	(20,430)
(Increase)/ decrease in accounts and other receivables		5,498	(18,198)
Increase in accounts payable and accruals		40,807	715,777
Increase in other payables		1,040,308	1,638,959
Net cash from operating activities		27,874	605,271
Cash flows from investing activities			
Purchase of property, plant and equipment	5	-	(1,063,123)
Proceeds from disposal of property, plant and equipment		-	32,000
Interest received		1	31
Net cash from/ (used in) investing activities		1	(1,031,092)
Net increase/ (decrease) in cash and cash equivalents		27,875	(425,821)
Cash and cash equivalents at the beginning of the period		8,018	433,839
Cash and cash equivalents at the close of the period	3	35,893	8,018

THE NOTES ON PAGES 6 TO 9 FORM PART OF THESE ACCOUNTS.

HONG KONG OYSTER COMPANY LIMITED
NOTES TO PROJECT ACCOUNTS
FOR THE PERIOD FROM 1 AUGUST 2019 TO 31 JULY 2020

Reporting entity

Hong Kong Oyster Company Limited (the "Company") is a limited company incorporated in Hong Kong. The Company's registered office and principal place of business is located at No. 19, Kau Nam Street, Lau Fau Shan, Yuen Long, N.T. Hong Kong.

The Company was engaged in the processing and packaging of oysters during the period.

The Government of the Hong Kong Special Administrative Region ("Government") has set up a Sustainable Fisheries Development Fund ("Fund") to help fishermen adopt a sustainable and high value-added operation mode, and subsidise relevant programmes and research so as to enhance the overall competitiveness of the industry.

The Company submitted a project proposal ("Proposal") to the Sustainable Fisheries Development Fund Secretariat to undertake a project to produce safe, fresh and good quality oyster by oyster depuration; and to promote local oyster through certification and accreditation, and building up the brand name of local oyster amongst consumers. The Proposal was accepted by the Government.

On 18 July 2017, the Company entered into a Grant Agreement ("Agreement") with the Government under which the Company was given a facility of maximum grant of HKD3 million of the Fund. The facility is secured by a floating charge of the Company's leasehold property, stock, shares, bonds, securities, all book and other debts, accounts receivable and securities for money. The grant is subject to the Agreement and Application Guidelines issued by The Sustainable Fisheries Development Fund Secretariat ("Application Guidelines") in September 2017.

1. Basis of preparation

The project accounts of 淨化生蠔項目計劃 (Oyster Purification Project) (the "Project") (Project number: SFDF - 0013), which comprise the income and expenditure statement and statement of cash flows for the period from 1 August 2019 to 31 July 2020 and statement of financial position as at 31 July 2020, and notes to the accounts ("Project Accounts").

The Project Accounts have included items of income, expenditure, assets and liabilities that relate to the Project only.

The Project Accounts have been prepared under the accrual basis of accounting and on the basis of the selected accounting policies as detailed in Note 2 to the Project Accounts.

The Company has been incurring operating losses and was in a net deficit position as at 31 July 2020. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Notwithstanding the foregoing, the Project Accounts have been prepared on a going concern basis, as the Company's shareholders have pledged to provide continuous financial support to the Company as and when necessary.

The measurement base adopted is the historical cost convention.

HONG KONG OYSTER COMPANY LIMITED
NOTES TO PROJECT ACCOUNTS
FOR THE PERIOD FROM 1 AUGUST 2019 TO 31 JULY 2020

2. Significant accounting policies

The Project Accounts are prepared in accordance with the following accounting policies:

- (a) Revenue
- Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:
- (i) sale of goods is recognised when the goods are delivered and the risks and rewards of ownership have passed to the customer, and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and
 - (ii) interest income is recognised on a time proportion basis taking into account the principal outstanding and the interest applicable.

- (b) Taxation
- Income tax expense represents current tax expense. The income tax payable represents the amounts expected to be paid to the taxation authority, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is not provided.

- (c) Property, plant and equipment
- Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The depreciable amount of an item of property, plant and equipment is allocated on a systematic basis over its estimated useful life using the straight-line method. The principal annual rates used for depreciation are as follows:

Depuration system and equipment	5 years
Office furniture and equipment	5 years

- (d) Leases
- Leases that transfer substantially all the rewards and risks of ownership of assets to the Company are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Capitalised leased assets are included in property, plant and equipment and are depreciated and assessed for impairment losses in the same way as owned assets.

Leases where substantially all the risks and rewards of ownership of assets are not transferred to the lessee are accounted for as operating leases. Annual rents applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

HONG KONG OYSTER COMPANY LIMITED
NOTES TO PROJECT ACCOUNTS
FOR THE PERIOD FROM 1 AUGUST 2019 TO 31 JULY 2020

- (e) Inventories
 Inventories are stated at the lower of cost (using a first-in-first-out basis) and net realisable value. In arriving at net realisable value an allowance has been made for deterioration and obsolescence.

3. Cash and bank balances

Cash and bank balances comprise cash at bank and on hand, demand deposits with a banks that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

4. Inventories

The inventories represents:

	As at 31 July 2020 HKD	As at 31 July 2019 HKD
Goods for resale	4,279	20,430

5. Property, plant and equipment

	Depuration system and equipment HKD	Office furniture and equipment HKD	Total HKD
Cost			
At 1 August 2019 and 31 July 2020	3,343,320	39,845	3,383,165
Accumulated depreciation			
At 1 August 2019	737,703	14,938	752,641
Depreciation	668,664	7,969	676,633
At 31 July 2020	1,406,367	22,907	1,429,274
Net carrying amount			
At 31 July 2020	1,936,953	16,938	1,953,891
At 31 July 2019	2,605,617	24,907	2,630,524

6. Due to a shareholder

The amount due to a shareholder is unsecured, interest-free and has no fixed term of repayment.

7. Loan from a shareholder

The loan was advanced by the shareholder to match up with the government grant as disclosed in Note 8 to the financial statements under the Agreement. The loan is unsecured, interest-free and is not repayable in the coming twelve months.

HONG KONG OYSTER COMPANY LIMITED
NOTES TO PROJECT ACCOUNTS
FOR THE PERIOD FROM 1 AUGUST 2019 TO 31 JULY 2020

8. Government grant - secured

On 18 July 2017, the Company entered into a Grant Agreement ("Agreement") with the Government under which the Company was given a facility of maximum grant of HKD3 million of the Fund. The facility is secured by a floating charge of the Company's leasehold property, stock, shares, bonds, securities, all book and other debts, accounts receivable and securities for money. The grant is subject to the Agreement and Application Guidelines issued by The Sustainable Fisheries Development Fund Secretariat ("Application Guidelines") in September 2017.

The Company has received a total of HKD2,000,000 under the Agreement up to 31 July 2020. Subsequently, the Company has received an additional HKD300,000 under the same Agreement on 31 August 2020.

In accordance with the Agreement, the grant is repayable on 31 July 2020. The directors are in the discussion with the Government to extend the repayment date beyond 31 July 2020. As of the date of these financial statements are issued, the above sum has not yet been repaid nor extension of repayment date been agreed.