

**For information**

**Panel on Commerce and Industry**

**Independent auditor's report of the CuMask+™ project**

**PURPOSE**

This information paper aims to provide the independent auditor's report (at Annex) and other relevant information of the CuMask+™ project supported under the Anti-epidemic Fund (“AEF”) for Members' reference.

**BACKGROUND**

Exploring proposals for reusable masks

2. Since late January this year, COVID-19 has started to spread rapidly, and there was an acute shortage of disposable masks in the market. The Innovation and Technology Bureau (“ITB”), through various channels, contacted a number of local and overseas suppliers of reusable masks in order to assess the feasibility of procuring reusable masks. However, due to the severity of the epidemic at that time, suppliers reverted that they either had stopped production, did not have enough stock, were unable to export materials due to export control or unable to provide testing certification, etc. Meanwhile, the ITB reviewed the reusable mask developed by the Hong Kong Research Institute of Textiles and Apparel (“HKRTIA”), and considered that there were testing certifications proving its compliance with relevant international standards. The ITB therefore requested the HKRITA to explore the production of reusable masks. By mid-February, having obtained part of the raw materials for reusable masks, the HKRITA then explored the feasibility of manufacturing. The ITB had also considered a combination of solutions in providing reusable masks for all Hong Kong residents. Following the approval of the AEF by the Legislative Council Finance Committee on 21 February this year, \$800 million has been reserved for the ITB to explore technology applications to enable reusability of masks. Until April, as the HKRITA had secured raw materials that were sufficient for manufacturing at least 9 million masks and the production line in Vietnam was ready to

commence mass production, the ITB confirmed that the HKRITA would be responsible for co-ordinating the production of all reusable masks.

### The HKRITA

3. The Innovation and Technology Commission (“ITC”) has commissioned the HKRITA to co-ordinate the CuMask+™ project. The HKRITA is responsible for sourcing raw materials as well as co-ordinating production, sterilisation and packaging processes, etc. The whole process was conducted in accordance with the Government’s procurement regulations and procedures<sup>1</sup>, and it was confirmed that the conditions under the Agreement on Government Procurement of the World Trade Organisation had been met.

4. The HKRITA is a non-profit-making organisation fully funded by the Government, registered as a company limited by guarantee which cannot distribute any profits. The CuMask+™ project is non-profit-making, and all expenses should be reimbursed to the HKRITA on the basis of actual expenditure. The HKRITA should submit to the Government an audit report prepared by an independent auditor based on their expenditures of the project.

### Mask design, patents and awards

5. The CuMask+™ is made of six layers of functional materials, two of which are specially made with small quantities of copper, capable of immobilising bacteria, common viruses, and other harmful substances. Together with the multi-layer structure, the mask serves as an effective barrier to droplets. The ergonomic design of the mask also ensures a secure fit. The mask reaches the American Society for Testing and Materials (ASTM) F2100 Level 1 standard in terms of Particle Filtration Efficiency (PFE), Bacteria Filtration Efficiency (BFE), resistance to penetration by synthetic blood, flammability, and pressure resistance, and is effective for 60 washes.

6. The mask was developed by the HKRITA, with its background design and technology supported by the Innovation and Technology Fund. The project commenced in March 2017 and was completed in

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<sup>1</sup> The Government’s Stores and Procurement Regulations allow direct purchase to be made under extreme urgency and with the approval from the Financial Services and the Treasury Bureau.

January 2019. The total project cost was \$1.5 million<sup>2</sup>. The HKRITA subsequently improved the technologies adopted for the mask to make it more resistant to washing, which had become the CuMask+™. The HKRITA applied for patents in respect of the new design and technology in Mainland China, Hong Kong, and the United States. The relevant patented technology is “Washable and reusable anti-microbial face mask”. All patent information has been uploaded onto the CuMask+™ website ([www.qmask.gov.hk](http://www.qmask.gov.hk)).

7. The mask was awarded a Gold Medal at the International Exhibition of Inventions of Geneva (“the Exhibition”) 2018. The organiser of the Exhibition wrote to congratulate the HKRITA on the commercialisation of the award-winning design to help Hong Kong people fight against the epidemic in May 2020. The CuMask+™ was also considered an exemplar of innovation at the Exhibition.

8. Since May this year, more than 10 organisations have enquired about the design and technology of the CuMask+™, including overseas governmental organisations, as well as enterprises and non-governmental organisations in Hong Kong, in the Mainland, and from overseas.

#### Test results of the CuMask+™

9. The CuMask+™ had been tested by multiple independent and accredited laboratories to ensure its compliance with relevant international standards. The tests include:

**(i) *ASTM F2100 Testing***

The mask had undergone three rounds of testing by internationally accredited laboratories that can conduct ASTM F2100 certification. The first round of testing<sup>3</sup> confirmed that the mask complied with ASTM F2100 Level 1 standard in various aspects and was reusable for up to 60 times. The CuMask+™ then underwent two rounds of testing<sup>4</sup>, one of which was conducted on the CuMask+™ washed by a locally

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<sup>2</sup> The HKRITA applied for patents in Mainland China and the United States in January 2018. The relevant patent is “Method and facemask for decreasing the microorganism to be inhaled and the use and manufacturing method of the same”. This patent is the background intellectual property of the CuMask+™.

<sup>3</sup> Conducted by the Taiwan Textile Research Institute.

<sup>4</sup> Conducted by Nelson Laboratories, LLC.

accredited laboratory<sup>5</sup>. The results also showed that the mask complied with relevant standards in terms of Particle Filtration Efficiency (PFE) and Bacteria Filtration Efficiency (BFE) before wash and after 40 and 60 washes, again confirming that the mask should suffice for daily protection in the community;

***(ii) Testing on copper substances***

The mask was tested by a locally accredited laboratory<sup>6</sup> under a setup of simulated breathing devices to find out whether the CuMask+™ would release copper substances during normal breathing by users. The results showed that no copper substances were released before the mask was washed and after it had been washed for 20, 40 and 60 times; and

***(iii) Anti-bacterial and anti-viral testing***

The mask also passed anti-bacterial and anti-viral tests<sup>7</sup>. The results showed that the mask could help resist *Staphylococcus aureus*, *Escherichia coli*, as well as H1N1 and H3N2 viruses.

The above test results have been uploaded onto the CuMask+™ website.

Mask manufacturing

10. The Government purchased 10.79 million masks produced by the HKRITA (including some 9.37 million in adult size, around 920 000 in child size, and around 500 000 in child (small) size).

11. According to the information provided by the HKRITA, the major raw material suppliers are Action Nonwovens Company Limited, Argaman Technologies Limited, Esquel Enterprises Limited<sup>8</sup>, and Y and K Textiles Limited. The masks were mainly produced in Vietnam<sup>9</sup>, with the

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<sup>5</sup> Intertek Testing Services Hong Kong Limited.

<sup>6</sup> Intertek Testing Services Hong Kong Limited.

<sup>7</sup> Conducted by Intertek Testing Services Hong Kong Limited and Boken Quality Evaluation Institute in Japan.

<sup>8</sup> The Chairman of the HKRITA and Vice Chairman of the Esquel Group, Ms. Teresa Yang, formally declared her interests regarding the supply of cotton fabric for the CuMask+™ project by the Esquel Group at the HKRITA board meeting held in late February 2020, and did not participate in any relevant discussions or decision making.

<sup>9</sup> At that time, there was no large-scale production or sterilisation equipment in Hong Kong, rendering it difficult to mass-produce millions of reusable masks in a short period of time.

Crystal International Group Limited responsible for the major part of production<sup>10</sup>; the Novetex Textiles Limited lending the venue for setting up clean room for sterilisation<sup>11</sup>; The Mills<sup>12</sup> and the TAL Apparel Limited<sup>13</sup> lending premises to set up workshops for sample development, improvement and testing, studying the production flow, staff training, and using the right material pattern to reduce raw material consumption; Kerry Logistics and the Hongkong Post (“HKP”) responsible for logistics and delivery.

## **TERRITORY-WIDE DISTRIBUTION**

12. For the convenience of residents and maintenance of social distance, the Office of the Government Chief Information Officer (“OGCIO”) developed an online registration system that enables residents (including permanent and non-permanent ones) to obtain adult-sized CuMask+™ via the dedicated website ([www.qmask.gov.hk](http://www.qmask.gov.hk)) from 6 May to 6 June. In addition, the Efficiency Office set up a telephone hotline for the project to address residents’ enquiries.

13. On the first day of registration, the registration system received over 720 000 registrations, with the number of registrants reaching 2 million. During the course of online registration, the system received over 1.44 million registrations, covering 3.93 million registrants in total. Residents who had successfully registered would receive an SMS message for confirmation from the Government, and then another one informing them that mail delivery had been arranged. Residents could also enquire about their registration and delivery status online.

### Two rounds of distribution

14. The Government carried out the first round of distribution from May to July. The masks were delivered at door by the HKP based on the addresses provided by residents in the online system. Each resident obtained one mask. Residents who had not registered online could collect

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<sup>10</sup> The Director of the HKRITA and Executive Director of the Crystal Group, Mr. Frankie Wong, formally declared his interests regarding the manufacturing of the CuMask+™ by the Crystal International Group Limited at the HKRITA board meeting held in late February 2020, and did not participate in any relevant discussions or decision making.

<sup>11</sup> The Novetex Textiles Limited provided the venue at no charge.

<sup>12</sup> The Mills charged nominal rent of \$1 and air-conditioning fees of about \$10,000.

<sup>13</sup> The TAL Apparel Limited provided the venue at no charge.

the masks in person or authorise others to do so on their behalf at 121 post offices around the territory and 205 estate management offices under the Hong Kong Housing Authority (“HKHA”) and the Hong Kong Housing Society (“HKHS”) from 15 June to 15 July.

15. The second round of distribution commenced on 14 September. If residents had given the Government consent to use their registration data for distribution of other masks before 30 April 2021 and had the first mask successfully delivered by the HKP, the Government would deliver the second mask to their registered addresses. Residents need not register again.

16. Upon completion of postal delivery in the second round, residents who had not obtained the CuMask+™ could collect adult-sized ones in person or authorise others to do so at post offices and estate management offices under the HKHA and the HKHS.

17. Upon completion of two rounds of distribution work, the OGCIO had deleted the personal data of residents who did not give the Government consent during online registration to use their registration data for distribution of other masks and those who collected the masks in person or authorised others to do so on their behalf. The OGCIO will keep the personal data of those who had given the Government consent to use their registration data for distribution of other masks during online registration until 30 April 2021, and then delete them.

Catering for specific communities: Distribution via schools, social welfare institutions, boundary control points, etc.

18. In May and June, primary school and kindergarten students received two child / child (small) sized CuMask+™, and each Primary 6 student received an extra adult-sized mask. Subsequently, in September 2020, the Government distributed two adult-sized masks to each Primary 6 student and one to each Secondary 1 student in the new academic year. The CuMask+™ were delivered to over 2 000 campuses in two rounds of distribution.

19. In addition, the Government arranged to distribute the CuMask+™ to the elderly living alone, the homeless, underprivileged families, ethnic minorities, the disabled, disadvantaged teenagers/children, etc. via around 1 460 service units (including day centres, residential homes, Employment Support Services centres, etc., involving 130 social

welfare institutions), five Consulate Generals (“CGs”), and 11 associations supporting ethnic minorities.

20. Upon the implementation of the Return2hk Scheme, the Government also started distributing the CuMask+™ to Hong Kong residents returning to Hong Kong via the three boundary control points (“BCPs”) (*viz.* the Hong Kong International Airport, the Shenzhen Bay Port, and the Hong Kong-Zhuhai-Macao Bridge Hong Kong Port) from 11 November.

## STATISTICS OF DISTRIBUTION FIGURES

21. As at 30 December 2020, the Government has distributed around 10.32 million CuMask+™ via different channels. The relevant breakdown is as follows –

<b>Distribution channel</b>	<b>Quantity of masks (approximate number)</b>
HKP delivery in two rounds	6 890 000
Collection in person / authorisation for others to collect on one’s behalf via post offices around the territory in two rounds	790 000
Collection in person / authorisation for others to collect on one’s behalf via estate management offices under the HKHA and the HKHS in two rounds	60 000
Distribution via kindergartens, primary schools, and secondary schools	1 670 000
Distribution via service units of social welfare institutions, residential homes, CGs, associations supporting ethnic minorities, etc.	770 000
Distribution via three BCPs	140 000
<b>Total</b>	<b>10 320 000</b>
<b>Remaining stock</b>	<b>470 000</b>

## EXPENDITURE BY ITEMS

22. The independent auditor’s report (at **Annex**) reviews the HKRITA’s expenditures on the project on or before 31 October 2020 (“cut-

off date”). According to the audited account, the HKRITA has produced around 10.79 million masks in total, including around 10.5 million masks which have been delivered<sup>14</sup> (involving an expenditure of around \$268 million) and around 290 000 masks in stock as of the cut-off date (involving an expenditure of around \$7.5 million).

23. As we continue to deliver the CuMask+™ to social welfare institutions, CGs, and associations supporting ethnic minorities upon their request and distribute the masks at the three BCPs after the cut-off date of the independent auditor’s report, the HKRITA needs to pay for the relevant costs of warehousing, logistics, etc. (around \$570,000). Together with the expenditures on the development of the online registration system, sending SMS messages, publicity, etc. paid by the ITB (around \$3.57 million), the total expenditure of the entire project amounts to **around \$280 million**, and the unit cost of the mask involved is less than \$26. The cost items are summarised as follows –

<b>Purpose</b>	<b>Expenditure (\$) (approximate number)</b>
<b>Manufacturing-related costs<sup>15</sup></b>	
(a) Expenses on raw materials and manufacturing of the masks (including cut and trim, production, packaging, sterilisation, transportation and airfreight, wages, renovation of production site, etc.)	178,660,000
(b) Equipment (including sewing machines, package label machines, etc.)	1,090,000
<b>Sub-total (A)</b>	<b>179,750,000</b>
<b>Non-manufacturing-related costs</b>	
(c) Warehousing	1,910,000
(d) HKP delivery in two rounds	42,480,000
(e) Distribution via post offices around the territory in two rounds	6,670,000

<sup>14</sup> Including the quantity of masks distributed to residents and those delivered to specific locations (viz. post offices and estate management offices under the HKHA and the HKHS) pending residents’ collection in person. Some of the masks were returned to the warehouse in November upon completion of the second round distribution.

<sup>15</sup> The HKRTIA has returned part of the unused raw materials to the supplier at their original price, and will arrange to deal with the remaining materials through, for example, public auction.



(f)	Distribution via 185 public rental estate management offices under the HKHA in two rounds	250,000
(g)	Distribution via 20 rental estate management offices under the HKHS in two rounds	10,000
(h)	Other logistics and distribution (including pick and pack, delivery of masks to kindergarten, primary school and secondary school campuses, service units of social welfare institutions, residential homes, Central Mail Centre of HKP, 7 delivery points designated by the HKHA, 4 delivery points designated by the HKHS, etc.) <sup>16</sup>	31,860,000
(i)	Others (testing, patent application, audit, insurance, etc.)	5,050,000
<b>Sub-total (B)</b>		<b>88,230,000</b>
<b>Expenditure paid by the HKRITA as at 31 October 2020</b>		
Expenditure of around 10.5 million masks delivered <sup>14</sup> (A)+(B)		268,000,000
Expenditure of around 290 000 masks in stock on the cut-off date <sup>14</sup> (C)		7,500,000
<b>Sub-total (A)+(B)+(C)</b>		<b>275,500,000</b>
<b>Other expenditure</b>		
Expenses paid by the ITB (including development of online registration system, sending SMS messages, publicity, etc.) (D)		3,570,000
<b>Expenditure paid by the HKRITA after the cut-off date of the independent auditor's report</b>		
Logistics expenses on delivery of masks to social welfare institutions, CGs, and associations supporting ethnic minorities, as well as distribution at BCPs (E)		570,000
<b>Total project expenditure (A)+(B)+(C)+(D)+(E)</b>		<b>280,000,000</b>

24. As mentioned above, as the CuMask+™ project is non-profit-making, all expenses paid by the HKRITA should be reimbursed on the basis of actual spending. The HKRITA has been returning the unused

<sup>16</sup> Including over 5 000 delivery trips to over 3 000 points.

funds to the Government. Among the expenditure incurred by the CuMask+™ project, \$100 million is supported by internal resources, and around \$180 million by the AEF. We have already arranged to return around \$620 million to the AEF.

## **ADVICE SOUGHT**

25. Members are invited to note the content of this paper.

**Innovation and Technology Bureau  
Innovation and Technology Commission  
December 2020**

**THE PROJECT OF THE SUPPLY OF WASHABLE  
AND RE-USEABLE FACE MASKS FOR COMBATING  
THE INFECTION AND SPREAD OF THE NOVEL  
CORONAVIRUS (THE “FACE MASK PROJECT”)  
CONDUCTED BY THE HONG KONG RESEARCH  
INSTITUTE OF TEXTILES AND APPAREL LIMITED**

Report and Financial Statements  
For the period from 18 February 2020 to 31 October 2020

**THE FACE MASK PROJECT CONDUCTED BY THE HONG KONG  
RESEARCH INSTITUTE OF TEXTILES AND APPAREL LIMITED  
REPORT AND FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 18 FEBRUARY 2020 TO 31 OCTOBER 2020**

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**INDEPENDENT AUDITOR'S REPORT  
TO THE BOARD OF DIRECTORS OF  
THE HONG KONG RESEARCH INSTITUTE OF TEXTILES AND  
APPAREL LIMITED  
(Incorporated in Hong Kong and limited by guarantee)**

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**Opinion**

We have audited the financial statements of the project of the supply of washable and re-useable face masks for combating the infection and spread of the Novel Coronavirus (the "Face Mask Project") conducted by The Hong Kong Research Institute of Textiles and Apparel Limited (the "Company") set out on pages 4 to 18, which comprise the statement of financial position as at 31 October 2020, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the period from 18 February 2020 to 31 October 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Face Mask Project as at 31 October 2020, and of its financial performance and its cash flows for the period from 18 February 2020 to 31 October 2020 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Face Mask Project and the Company 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.

**INDEPENDENT AUDITOR'S REPORT  
TO THE BOARD OF DIRECTORS OF  
THE HONG KONG RESEARCH INSTITUTE OF TEXTILES AND  
APPAREL LIMITED  
(Incorporated in Hong Kong and limited by guarantee)**

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**Emphasis of Matter – Departure from the Going Concern Basis of Accounting**

In forming our opinion on the financial statements, which is not modified, we have considered the preparation of the financial statements on a basis other than that of a going concern. As stated in Note 2 to the financial statements, all equipment purchased specifically for the Face Mask Project and all remaining inventories not yet delivered after the completion of the Face Mask Project shall remain the exclusive property of the Government of the Hong Kong Special Administrative Region (the “Government”); and any amount prepaid by the Government in excess of the contract price (the “surplus cash”) shall be repaid to the Government. As such, we consider the basis adopted is appropriate.

**Responsibilities of the Directors of the Company for the Financial Statements**

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

In preparing the financial statements, the directors are responsible for assessing the Face Mask Project’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Face Mask Project or to cease operations, or have no realistic alternative but to do so. In the current situation, the going concern basis is not appropriate as all assets including the surplus cash shall be returned to the Government upon completion of the Face Mask Project.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

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

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

**INDEPENDENT AUDITOR'S REPORT  
TO THE BOARD OF DIRECTORS OF  
THE HONG KONG RESEARCH INSTITUTE OF TEXTILES AND  
APPAREL LIMITED  
(Incorporated in Hong Kong and limited by guarantee)**

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**Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)**

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 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 Face Mask Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of a basis of accounting other than that of a going concern based on the audit evidence obtained.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors 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.



**RSM Hong Kong**  
Certified Public Accountants  
Hong Kong

9 December 2020

**THE FACE MASK PROJECT CONDUCTED BY THE HONG KONG  
RESEARCH INSTITUTE OF TEXTILES AND APPAREL LIMITED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD FROM 18 FEBRUARY 2020 TO 31 OCTOBER 2020**

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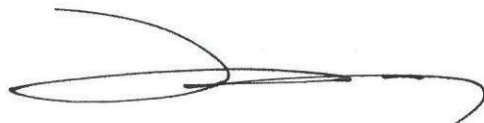
	Note	HK\$
<b>Income</b>	5	<u>267,971,782</u>
<b>Expenditure</b>		
Raw materials used		46,365,963
Packing materials used		3,077,075
Changes in inventories		(28,961,212)
Write down of inventories to net realisable value	8	21,466,954
Employee benefit expenses	7	9,846,993
Subcontracting charges		124,094,230
Warehousing cost	6	1,907,062
Labour outsourcing expense		1,126,120
Postage and logistics costs	6	81,268,676
Equipment		1,092,891
Clean room set-up cost		1,321,000
Restoration cost		315,570
Testing fee		2,381,138
Other operating expenses	6	<u>2,669,322</u>
<b>Total expenditure</b>		<u>267,971,782</u>
<b>Result and total comprehensive income for the period</b>		<u><u>-</u></u>



THE FACE MASK PROJECT CONDUCTED BY THE HONG KONG  
RESEARCH INSTITUTE OF TEXTILES AND APPAREL LIMITED  
STATEMENT OF FINANCIAL POSITION  
AT 31 OCTOBER 2020

	Note	HKS
<b>Current assets</b>		
Inventories	8	7,494,258
Deposit and receivable		3,033,542
Bank balance		<u>210,994,336</u>
		<u>221,522,136</u>
<b>Current liabilities</b>		
Accruals and payables		9,492,017
Contract liability	9	<u>212,030,119</u>
		<u>221,522,136</u>
<b>NET ASSETS</b>		<u><u>-</u></u>
<b>Representing:</b>		
<b>RESERVES</b>		<u><u>-</u></u>

Approved by the Board of Directors and signed on its behalf on 9 December 2020 by:



Mr. Leung Ka Yuen, Lawrence  
Director



Mr. Hui Chung Shing, MH, SBS, JP  
Director

**THE FACE MASK PROJECT CONDUCTED BY THE HONG KONG  
RESEARCH INSTITUTE OF TEXTILES AND APPAREL LIMITED  
STATEMENT OF CHANGES IN RESERVES  
FOR THE PERIOD FROM 18 FEBRUARY 2020 TO 31 OCTOBER 2020**

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	HK\$
At beginning of the period	-
Result and total comprehensive income for the period	<u>-</u>
At end of the period	<u><u>-</u></u>

**THE FACE MASK PROJECT CONDUCTED BY THE HONG KONG  
RESEARCH INSTITUTE OF TEXTILES AND APPAREL LIMITED  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM 18 FEBRUARY 2020 TO 31 OCTOBER 2020**

	HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Result for the period	-
Adjustment for:	
Write down of inventories to net realisable value	<u>21,466,954</u>
Operating surplus before working capital changes	21,466,954
Increase in inventories	(28,961,212)
Increase in deposit and receivable	(3,033,542)
Increase in accruals and payables	9,492,017
Increase in contract liability	<u>212,030,119</u>
Net cash generated from operating activities	<u>210,994,336</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>210,994,336</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<u><u>210,994,336</u></u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>	
Bank balance	<u><u>210,994,336</u></u>

**THE FACE MASK PROJECT CONDUCTED BY THE HONG KONG  
RESEARCH INSTITUTE OF TEXTILES AND APPAREL LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 18 FEBRUARY 2020 TO 31 OCTOBER 2020**

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**1. GENERAL INFORMATION**

The Hong Kong Research Institute of Textiles and Apparel Limited (the “Company”) is a company limited by guarantee and was incorporated in Hong Kong under the Hong Kong Companies Ordinance with limited liability. The Company does not have a share capital.

The Company’s member is The Hong Kong Polytechnic University, which is established in Hong Kong under The Hong Kong Polytechnic University Ordinance.

The registered office and principal place of business of the Company is located at R906-08, Shirley Chan Building, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong. The principal activities of the Company are to carry out research, development and technology transfer in fashion and textiles technologies.

The Company and the Government of the Hong Kong Special Administrative Region (the “Government”) have entered into certain agreements in February 2020, March 2020, and April 2020, respectively and a supplemental agreement in June 2020 (collectively, the “Agreements”). In accordance with the Agreements, the Government has agreed to procure from the Company and the Company has agreed to supply and deliver in batches to the Government washable and re-useable face masks for combating the infection and spread of the Novel Coronavirus.

**THE FACE MASK PROJECT CONDUCTED BY THE HONG KONG  
RESEARCH INSTITUTE OF TEXTILES AND APPAREL LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 18 FEBRUARY 2020 TO 31 OCTOBER 2020**

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**2. BASIS OF PREPARATION**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards; and Interpretations.

The Face Mask Project has not early applied new and revised HKFRSs that have been issued but are not yet effective for the current accounting period.

These financial statements have been prepared on a basis other than that of a going concern. Pursuant to the Agreements, the Company shall repay to the Government any amount prepaid by the Government in excess of the contract price under the Agreements within one month from the Government’s acceptance of the financial statements. All equipment purchased specifically for the Face Mask Project and all remaining inventories not yet delivered after the completion of the Face Mask Project shall remain the exclusive property of the Government.

Significant accounting policies adopted by the Face Mask Project are disclosed below.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Face Mask Project’s accounting policies.

The significant accounting policies applied in the preparation of these financial statements are set out below:

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(a) Foreign currency translation**

**(i) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Face Mask Project operates (the “functional currency”). The financial statements are presented in Hong Kong dollars, which is the Face Mask Project’s functional and presentation currency.

**(ii) Transactions and balances in the financial statements**

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of the reporting period. Gains and losses resulting from this translation policy are recognised in the statement of comprehensive income.

**(b) Short-term leases**

For short-term leases that have a lease term of 12 months or less, the lease payments associated with those leases are recognised as an expense on a systematic basis over the lease term.

**(c) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**(d) Contract liability**

A contract liability is recognised when the Government pays consideration before the Face Mask Project recognises the related income.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(e) Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when the Face Mask Project conducted by the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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

The Face Mask Project derecognises financial liabilities when, and only when, the Face Mask Project's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of comprehensive income.

**(f) Financial assets**

Financial assets held by the Face Mask Project are classified as amortised cost, if the financial assets are held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial assets are calculated using the effective interest method.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(g) Receivables**

A receivable is recognised when the Face Mask Project has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

A receivable is stated at amortised cost using the effective interest method less allowance for credit loss.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank 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. Cash and cash equivalents are assessed for expected credit losses ("ECL").

**(i) Payables**

Payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(j) Revenue**

Revenue is recognised when control over a face mask is transferred to the Government, at the amount of promised consideration to which the Face Mask Project is expected to be entitled, excluding those amounts collected on behalf of third parties.

Income from the supply and delivery of face masks is recognised at a point in time when control of the goods has transferred, being when the goods have been delivered to the Government's specific locations (delivery).



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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(k) Employee benefits**

**(i) Employee entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees.

**(ii) Retirement benefit scheme**

The Company operates a mandatory provident fund scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the “Ordinance”) which is a defined contribution plan for all qualifying employees of the Face Mask Project in Hong Kong. Contributions to the MPF Scheme are calculated at 5% of the employees’ wages subject to a monthly maximum amount specified in the Ordinance per employee and vest fully with employees when contributed into the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Face Mask Project in an independently administered fund.

The retirement benefit contributions charged to the statement of comprehensive income represent contributions paid/payable to the MPF Scheme.

**(l) Impairment of financial assets**

A loss allowance for ECL is measured at an amount equal to lifetime ECL, which are those losses that are expected to occur over the expected life of financial assets. The loss allowance is estimated using a provision matrix based on the Company’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

The gross carrying amount of financial assets is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when management determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amount subject to the write-off.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(m) Events after the reporting period**

Events after the reporting period that provide additional information about the Face Mask Project's position at the end of the reporting period are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

**4. FINANCIAL RISK MANAGEMENT**

**(a) Financial risk management objectives and policies**

The Face Mask Project's activities expose it to credit risk. At 31 October 2020, the Face Mask Project's credit risk is primarily attributable to bank deposits.

The Face Mask Project's cash at bank is deposited in one financial institution listed in Hong Kong with high credit-ratings. Management has a credit policy in place and exposures to this risk are monitored on an ongoing basis.

**(b) Categories of financial instruments at 31 October 2020**

	<b>HKS</b>
<b>Financial assets:</b>	
Financial assets measured at amortised cost	<b>214,027,878</b>
<b>Financial liabilities:</b>	
Financial liabilities at amortised cost	<b><u>214,027,878</u></b>

**(c) Fair values**

The carrying amounts of the Face Mask Project's financial assets and financial liabilities as reflected in the statement of financial position approximate their respective fair values.

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**5. INCOME**

Income from the supply and delivery of face masks to the Government is recognised at a point in time at which the performance obligation is satisfied.

During the period, 10,496,273 pieces of face masks were delivered to the locations specified by the Government. The unit cost of each face mask is approximately HK\$25.53. The unit price of each face mask supplied by the Company to the Government pursuant to the terms and conditions of the Agreements is equal to the unit cost.

In accordance with the Agreements, total cost means all costs and expenses actually incurred by the Company for the supply and delivery of face masks, including but not limited to sample production costs, material costs, production costs, labour costs, packaging costs, delivery costs, transportation costs, shipping costs, carriage costs, insurance costs, loading costs, storage costs, testing costs and other costs and charges for the supply and delivery of face masks. Unit cost means the total cost divided by the total pieces of face masks actually supplied by the Company to the Government.

The Company applies the practical expedient in paragraph 63 of HKFRS 15 Revenue from Contracts with Customers and does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good to the Government and when the Government pays for that good will be one year or less.

**6. EXPENSES BY NATURE**

	Note	HK\$
Warehousing cost	(a)	1,907,062
Postage and logistics costs	(b)	81,268,676
Other operating expenses	(c)	2,669,322

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**6. EXPENSES BY NATURE (CONT'D)**

Note:

**(a) Warehousing cost**

	<b>HKS</b>
Expenses relating to short-term leases	1,658,696
Expenses relating to leases with a lease term of one month or less	<u>248,366</u>
	<u><u>1,907,062</u></u>

**(b) Postage and logistics costs**

	<b>HKS</b>
Postal delivery and counter collection fees	49,408,434
Distribution and logistics costs	<u>31,860,242</u>
	<u><u>81,268,676</u></u>

**(c) Other operating expenses**

	<b>HKS</b>
Auditor's remuneration	350,000
Consumable expenses	326,410
Insurance	765,666
Patent application and related expenses	878,117
Legal fee	35,200
Sundry expenses	<u>313,929</u>
	<u><u>2,669,322</u></u>

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**7. EMPLOYEE BENEFIT EXPENSES**

	HK\$
Salaries and allowance	9,460,603
Retirement benefit scheme contributions	386,390
	9,846,993

**8. INVENTORIES**

	HK\$
Raw materials	7,316,571
Work in progress	14,150,383
Finished goods	7,494,258
	28,961,212
Less: Write down of inventories to net realisable value	(21,466,954)
	7,494,258

**9. CONTRACT LIABILITY**

The movements of contract liability during the period are as follows:

	HK\$
Prepayments made by the Government to the Company	480,000,000
Decrease in contract liability as a result of recognising income during the period (Note 5)	(267,971,782)
Interest arose from a segregated bank account for the Face Mask Project	1,901
	212,030,119

On 6 November 2020, the Company refunded HK\$180,000,000 to the Government.

In accordance with the Agreements, the Company shall repay to the Government any amount prepaid by the Government in excess of the contract price under the Agreements within one month from the Government's acceptance of these financial statements.

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**10. RELATED PARTY TRANSACTIONS**

The Face Mask Project had the following transactions with its related parties:

	Note	HK\$
Patent application and related expenses charged by the member of the Company - The Hong Kong Polytechnic University		878,117
Purchase of raw materials from a related company - Esquel Enterprises Limited	(a)	<u>3,715,900</u>

Note:

- (a) Ms. Yang Ming Yen, Teresa, the Chairman of the Company's Board of Directors, is a director and a beneficial owner of Esquel Enterprises Limited.

In view of the above, Ms. Yang Ming Yen, Teresa made a formal declaration of interest to the Company's Board of Directors regarding the supply of cotton fabric for the Face Mask Project by Esquel Enterprises Limited in the late February 2020 board meeting.

**11. EVENTS AFTER THE REPORTING PERIOD**

Save as disclosed elsewhere in these financial statements, the following significant event took place subsequent to 31 October 2020.

At 31 October 2020, 293,545 pieces of face masks were kept by the Company as inventories, of which 288,991 pieces of face masks were delivered to the locations specified by the Government subsequent to 31 October 2020.

Up to the date of these financial statements, the Face Mask Project has yet to be completed. 4,554 pieces of face masks and all equipment purchased specifically for the Face Mask Project were kept by the Company pending for further instructions of the Government. As such, additional revenue will be generated and further expenses will be incurred under the Agreements subsequent to the reporting period.