



2021

Annual Report

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Nanfang Communication Holdings Limited
南方通信控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1617)

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Shi Ming (*Chief executive officer*)

Ms. Yu Rumin

Ms. Yu Ruping

Non-Executive Director

Mr. Yu Jinlai (*Chairman*)

Independent Non-Executive Directors

Mr. Wu Wing Kuen

Mr. Lam Chi Keung

Mr. Chan Kai Wing

COMPANY SECRETARY

Ms. Lo Moon Fong

AUTHORISED REPRESENTATIVES

Mr. Shi Ming

Ms. Lo Moon Fong

REGISTERED OFFICE

Cricket Square, Hutchins Drive

P.O. Box 2681, Grand Cayman

KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 902, 9/F., Capital Centre

151 Gloucester Road

Wan Chai, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

1 Cencun Road, Luoyang Town

Wujin District, Changzhou City

Jiangsu Province, The People's Republic of China

AUDITOR

Deloitte Touche Tohmatsu (resigned on 4 August 2021)

BDO Limited (appointed on 4 August 2021)

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

P.O. Box 2681, Grand Cayman

KY1-1111, Cayman Islands

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

WEBSITE

www.jsnfgroup.com

STOCK CODE

1617

Nanfang Communication Holdings Limited (the “**Company**”) (stock code: 1617) (together with its subsidiaries, collectively referred to as the “**Group**”) is a well-established supplier for optical telecommunication products with the Group’s headquarters based in Changzhou City, Jiangsu Province, The People’s Republic of China (the “**PRC**”). The Group is principally engaged in manufacturing and sales of a wide range of optical fibre cable products and related devices as well as processing and sales of prepainted steel sheets. The Group aligns a complete industry chain along the optical fibre preforms and optical fibre business through its joint venture entity and associate. As a leading company in the optical fibre cables market in the PRC, the Group offers various models of optical fibre cables and related devices to cater for customers’ demand. Such optical fibre cables can be used in different applications, such as mobile communication networks, internet networks, and fixed telephone networks in the telecommunications industry, and can be installed under different conditions. The Group’s customers principally include national and regional telecommunications network operators and telecommunications supporting services providers in the PRC. The Group has established stable and long-term relationships with its key customers with a trusted brand, which would greatly secure the sales for the Group’s on-going business operation.

The Group is highly regarded in the optical fibre cable market in the PRC. The Group was awarded ISO 9001:2015, ISO 10012:2003, ISO 14001:2015, ISO/IEC 27001:2013, ISO 45001:2018 and ISO 50001:2018 certificates in relation to manufacturing of optical fibre cable products and was recognised by the Science and Technology Department of Jiangsu Province in the PRC as a high and new technology enterprise (高新技術企業) since 2010. In 2018, the Company was granted accreditation for laboratories from China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會). Moreover, the Group was rewarded with AAA grading in quality credit (企業行業信用) by the China Association of Communication Enterprises (中國通信企業協會), demonstrating our commitment in pursuing highest product quality. The Group also participated in the drafting of the national and telecommunications industry standards initiated by China Communications Standards Association (中國通信標準化協會) for publication by the government authorities for optical fibre cables in the PRC. The Group believes that, by leveraging the Group’s strengths on product quality and research ability, the Group has successfully enhanced the Group’s product recognition in the market.

Supported by the Group’s two production sites, namely, Wu Jin Factory and Jin Tan Factory, both of which are located in Changzhou City, Jiangsu Province, the PRC, the Group owns a total site area of approximately 76,900 square metres. The Group’s aggregate annual production capacity has reached approximately 15 million fkm. Both of our Wu Jin Factory and Jin Tan Factory were recognised as State and Changzhou City Green Factory respectively, demonstrating our efforts in green production and environmental protection.

On 12 December 2016, the shares of the Company were successfully listed (the “**Listing**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). As of 31 December 2021, the Company had 1,478,400,000 issued shares (the “**Shares**”).

Financial Highlights

For the year ended 31 December 2021, the Group's operating results were as follows:

- Total revenue increased by approximately 15.5% to approximately RMB438.3 million (2020: approximately RMB379.5 million)
- Gross profit decreased by approximately 66.6% to approximately RMB13.0 million (2020: approximately RMB38.7 million)
- Gross profit margin decreased by approximately 7.2% to approximately 3.0% (2020: approximately 10.2%)
- The recognition of one-off equity-settled share-based payment expenses of approximately RMB14.9 million (2020: nil) which led to an increase of staff costs by approximately 35.0% to approximately RMB50.5 million (2020: approximately RMB37.4 million)
- Loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB59.9 million (2020: approximately RMB19.2 million)
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil)

Five-Year Financial Summary

RESULTS

| | For the year ended 31 December | | | | |
|--|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 | 2019 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Revenue | 438,317 | 379,521 | 534,327 | 900,300 | 901,328 |
| (Loss) profit before tax | (70,073) | (24,935) | 41,764 | 168,543 | 147,589 |
| Income tax credit (expense) | 10,183 | 5,753 | (7,908) | (27,111) | (17,257) |
| (Loss) profit and total comprehensive (expense) income for the year | (59,890) | (19,182) | 33,856 | 141,432 | 130,332 |
| (Loss) profit and total comprehensive (expense) income for the year attributable to: | | | | | |
| Owners of the Company | (59,890) | (19,182) | 33,856 | 141,432 | 130,332 |
| Non-controlling interests | - | - | - | - | - |
| | (59,890) | (19,182) | 33,856 | 141,432 | 130,332 |

ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|--|-------------------|-----------------|-----------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 | 2019 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Total assets | 1,359,594 | 1,272,343 | 1,337,657 | 1,495,390 | 1,235,233 |
| Total liabilities | (592,486) | (516,343) | (523,426) | (645,015) | (453,874) |
| | 767,108 | 756,000 | 814,231 | 850,375 | 781,359 |
| Equity attributable to owners of the Company | 767,108 | 755,849 | 814,231 | 850,375 | 781,359 |
| Non-controlling interests | - | 151 | - | - | - |
| | 767,108 | 756,000 | 814,231 | 850,375 | 781,359 |

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Group, I am pleased to present to our shareholders the annual results of the Group for the year ended 31 December 2021 (the "**Reporting Period**" or the "**Year**").

BUSINESS REVIEW

The Group is a leading telecommunication manufacturer in the PRC. For the year ended 31 December 2021 with the introduction of processing and sales of prepainted steel sheet, the Group recorded an increase of total revenue by 15.5% to approximately RMB438.3 million (2020: approximately RMB379.5 million). The gross profit of the Group was approximately RMB13.0 million (2020: approximately RMB38.7 million), representing a reduction of approximately 66.6%. The Company recorded a loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB59.9 million (2020: approximately RMB19.2 million). During the year ended 31 December 2021, the Company's basic loss per share was approximately RMB0.05 (2020: approximately RMB0.02).

The Group's operating revenue and net profit in 2021 decreased significantly as compared with 2020, mainly because:

1. Due to the further decline of approximately 30% in the average unit tender prices for optical fibre cables in the industry in the centralised procurement of common optical fibre cable products by the three state-owned telecommunications network operations in the PRC ("**Major PRC Telecommunications Network Operators**") in the second half of 2020, the awarded tender prices, which had been generally applicable since the fourth quarter of 2020, decreased significantly. Although the Group's awarded share and awarded price in the centralised procurement of common optical fibre cables carried out by China Mobile in 2021 both increased, the increased awarded price was not implemented until December 2021. As a result, the increased price did not have a positive impact on the Group's performance for the entire year, thereby leading to a decline in the Group's operating revenue;
2. Since the second half of 2020, especially since 2021, the cost of raw materials other than optical fibre (such as nonferrous metals, certain chemical raw materials and other bulk commodities) has continued to increase significantly. At the same time the Group had relatively low flexibility in the production cost of its products. This, coupled with the rapid decline in unit prices, has put great pressure on profit margins. As a result, the Group recorded a relatively greater loss compared to the previous financial year;
3. The Company recorded one-off equity-settled share-based payment expenses of approximately RMB14.9 million for the year ended 31 December 2021 as a result of granting share options to eligible participants under the share option scheme on 27 May 2021. The Company did not incur such expenses in the corresponding period last year.

OUTLOOK

According to the 2021 Statistical Communique on the Telecom Industry issued by the Ministry of Industry and Information Technology of the PRC, the length of new optical fibre cables in China amounted to 3.19 million km in 2021, with the country's total length of optical fibre cables reaching 54.88 million km. This means the total length of optical fibre cables in China grew by 6.17% in 2021. The deployment of 4G and FTTx in China is basically completed after 2019–2020, with the penetration rate of FTTH/B users in some cities exceeding 100%. As a result, the demand for optical fibre cables by Major PRC Telecommunications Network Operators slowed down significantly. Moreover, with the release of the upstream production capacity of optical fibre preforms, the production capacity of optical cables grew significantly, thereby leading to a change in supply and demand equilibrium.

The optical fibre and optical fibre cables market in 2021 saw rising demand against a backdrop of the large-scale deployment of 5G and gigabit optical fibre networks. The amount of centralized procurement of common optical fibre cables carried out and announced by China Mobile in October 2021 was equivalent to 143.2 million fkm, representing an increase of 20% compared to the size of its centralised procurement in 2020. In terms of prices, due to the improved supply and demand structure and the rise in raw material prices, the industry average price soared by 40%, rebounding successfully after bottoming out. Although the price rebounded significantly compared with 2020, the sharp rise in the prices of raw materials for optical fibre cables created some challenges.

In 2021, relevant national ministries and commissions successively issued favourable policies such as the “Dual-gigabit Network Synergetic Development Action Plan (2021–2023)” and the “5G Application ‘Sailing’ Action Plan (2021–2023)”, with the goal of building a “dual-gigabit” network infrastructure that will fully cover urban areas and qualified townships within three years, thus ensuring that both wired and wireless networks generally enjoy the “gigabit-to-home” capability. By the end of 2023, gigabit optical fibre networks will be able to cover 400 million households, with the number of gigabit broadband users exceeding 30 million; 5G networks will basically achieve coverage of areas above township level and key administrative villages; 100 gigabit cities will be built, and 100 gigabit industry virtual private network benchmarking projects will be launched. Based on the prevailing market environment in China, CRU Group, a UK-based market research institute, predicts that the demand for optical fibre and optical fibre cables in the Chinese market will reach 261 million fkm in 2022, representing a year-on-year increase of 6.5%. Meanwhile, under the construction plans of 5G and gigabit optical fibre networks, China's demand for optical fibre cables will maintain a compound annual growth rate of 2.9% from 2021 to 2026.

The Group will seek further opportunities for the integration of the industry chain of optical fibre and optical fibre cables, explore new ways and improve existing models for horizontal cooperation within the industry, and enhance its control on the prices of raw materials, thus strengthening the Company's cost control and improving its competitiveness and profitability.

Chairman's Statement

In February 2022, four PRC governmental departments, including the National Development and Reform Commission and the Ministry of Industry and Information Technology, jointly issued a document, whereby they have agreed to start the construction of national computing hubs in 8 regions (including Beijing-Tianjin-Hebei, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, Chengdu-Chongqing, Inner Mongolia, Guizhou, Gansu and Ningxia), and approved plans on 10 national data centre mega clusters, which marks the official launch of China's "Eastern Data and Western Computing" initiative. With a new network system of computing resources that integrates data centres, cloud computing and big data, the demand for computing resources in the eastern regions can be channeled to the western regions in an orderly manner, the planning of data centre construction can be optimised, and the quality of network transmission can be improved, thereby reducing the cost of cloud data usage, accelerating the application and implementation of new technologies such as the industrial internet, telemedicine, virtual reality, and artificial intelligence. The Group will seize opportunities for development arising from the data centre market and the telecommunication market to promote the rapid development and breakthrough of its optical device and other related businesses.

While expanding its diversified businesses centred on the telecommunication industry, the Group strives to find new business growth points. New materials are essential for the hardware construction in new infrastructure construction, and are also an important strategic emerging industry. In the recently released "14th Five-Year Plan and the Long-Range Objectives Through the Year 2035 (Draft)", the in-depth implementation of the strategy of becoming a strong manufacturing country and the development and expansion of strategic emerging industries have been clearly put forward, and the goal of developing high-end new materials has also been stated. In 2021, leveraging the local industrial foundation and market environment, the Group invested in and launched the business of processing and sales of prepainted steel sheets, with a view to establishing new business growth points. The Group will also enhance its technological research and development as and when appropriate to optimise the technical level of these products. While maintaining steady growth in the traditional market, prepainted steel sheets have also become a key driver for the rapid development of the industry as they are widely used in new energy vehicles, high-end equipment manufacturing, aerospace and other related industries.

In 2022, the global macro economy still faces risks, as the impact of the pandemic persists and the international situation remains complicated. We believe that the impact of the pandemic on the Group's operations and prospects will depend on the policies imposed for the prevention and control of the pandemic and the relevant protective measures that may affect the business environment in which the Group operates. The development of communication technologies, whether the construction of 5G networks or the deployment of gigabit optical fibre networks, has brought opportunities for the development of the optical fibre and optical fibre cable industry. However, during the first quarter of 2022, the Brent crude oil price rose above US\$100 a barrel for the first time in eight years owing to the Russian-Ukrainian conflict, which has led to a sharp rise in the prices of bulk raw materials. As a result, the prices of raw materials used for the manufacture of optical fibre and optical fibre cables also show an overall uptrend. Under the prevailing market environment, the operations of optical fibre and optical fibre cable enterprises still face challenges and uncertainties. The Group will pay close attention to the development of these matters, continue to assess their impact on the Group and take necessary measures to mitigate its business risks.

Facing these challenges, in 2022, we will actively engage in the optical fibre cable industry and the new hardware manufacturing segment of the telecommunication industry that cater for the needs of 5G and gigabit optical fibre network construction, in order to improve our competitiveness and increase our market share, and strive for satisfactory returns for our shareholders.

Chairman's Statement



APPRECIATION

Lastly, on behalf of the Board, I would like to extend my sincere gratitude to our shareholders for their support to the Group. The management team and staff of the Group will be dedicated to fostering future business growth and optimising return to our shareholders.

Yu Jinlai

Chairman

30 March 2022, Hong Kong

Management Discussion and Analysis

A. FINANCIAL REVIEW

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices as well as processing and sales of prepainted steel sheet. During the year ended 31 December 2021, the Group's total revenue was approximately RMB438.3 million, representing an increase of 15.5% from approximately RMB379.5 million for the year ended 31 December 2020.

By product segment, a total revenue of approximately RMB356.8 million was contributed by the optical fibre cables and optical distribution network devices segment, representing a decrease of approximately 6.0% as compared to 2020 of approximately RMB379.5 million. This accounted for 81.4% (2020: 100%) of the Group's revenue. On the other hand, a total revenue of approximately RMB81.5 million was contributed by prepainted steel sheet segment, which accounted for 18.6% of the Group's revenue.

Cost of sales

For the year ended 31 December 2021, the cost of sales of the Group amounted to approximately RMB425.4 million, representing an increase of approximately 24.8% from approximately RMB340.8 million for the year ended 31 December 2020.

Gross profit and gross profit margin

Gross profit of the Group decreased by approximately 66.6% to approximately RMB13.0 million for the year ended 31 December 2021 from approximately RMB38.7 million for the same period in 2020. During the Reporting Period, the Group's gross profit margin was approximately 3.0% as compared to a gross profit margin of approximately 10.2% for the year ended 31 December 2020. There was an overall decrease in tender prices for optical fibre cables in the industry, the Group's awarded tender prices have plummeted. Coupled with the significant increase in the costs of raw materials, it resulted in a material impact on the Group's gross profit and gross profit margin.

Other income, gains, expenses and losses, net

The Group recorded a net gain of approximately RMB23.0 million for the year ended 31 December 2021 as compared to approximately RMB18.0 million for the same period in 2020. The increase in net gain was mainly attributable to the recognition of net foreign exchange gains of approximately RMB5.6 million, whereas net foreign exchange loss of approximately RMB0.7 million was recorded for the year ended 31 December 2020.

Selling and distribution expenses

The Group incurred selling and distribution expenses of approximately RMB18.0 million for the year ended 31 December 2021 which has decreased moderately by approximately 6.8% compared to approximately RMB19.3 million for the same period in 2020. The decline in expenses was driven by the decrease in sales related manpower cost.

Management Discussion and Analysis

Administrative expenses

The Group's administrative expenses increased by approximately 35.5% to approximately RMB53.4 million for the year ended 31 December 2021 from approximately RMB39.4 million for the year ended 31 December 2020. The increase was due to a one-off equity-settled share-based payment expenses amounting to approximately RMB14.9 million for the year ended 31 December 2021 as a result of the share options granted to eligible participants pursuant to the share option scheme on 27 May 2021.

Research costs

The Group's research costs rose by approximately 26.9% to approximately RMB29.0 million for the year ended 31 December 2021 from approximately RMB22.8 million for the year ended 31 December 2020. The increase was mainly attributable to more resources were deployed to enhance product quality and structural transformation as well as development of new products.

Finance costs

During the year ended 31 December 2021, the Group's finance costs increased by approximately 72.4% to approximately RMB8.6 million from approximately RMB5.0 million for the year ended 31 December in 2020. The increase was in line with the increase in the average bank borrowings during the year ended 31 December 2021.

Share of profit of an associate

During the year ended 31 December 2021, the Group recorded a share of profit of an associate of approximately RMB0.1 million, representing a decrease of approximately 57.5% from approximately RMB0.2 million for the year ended 31 December 2020. The associate is engaged in the manufacturing and sales of optical fibre.

Share of profit of a joint venture

During the year ended 31 December 2021, the Group recorded a share of profit of a joint venture of approximately RMB4.6 million, representing a decrease of approximately 17.3% from approximately RMB5.5 million for the year ended 31 December 2020. The joint venture is engaged in the manufacturing and sale of optical fibre preforms.

Income tax credit

During the year ended 31 December 2021, the Group's income tax credit increased by approximately 77.0% to approximately RMB10.2 million from approximately RMB5.8 million for the year ended 31 December 2020. The increment is attributable to more available tax loss.

Loss and total comprehensive expense income attributable to owners of the Company

As a result of the foregoing, the Company incurred a loss and total comprehensive expense attributable to owners of approximately RMB59.9 million for the year ended 31 December 2021 as compared to approximately RMB19.2 million for the same period in 2020.

Management Discussion and Analysis

Liquidity, financial and capital resources

During the year ended 31 December 2021, the Group's operational and capital requirements were financed principally through share capital, reserves, bank borrowings, loan from a joint venture and an amount due to a director.

Cash and loan position

As at 31 December 2021, the Group had an aggregate of restricted bank deposits and balances, bank deposits with original maturity of more than three months, bank deposits, bank balances and cash of approximately RMB435.9 million (2020: approximately RMB377.5 million), representing an increase of approximately 15.5% as compared to that as at 31 December 2020.

As at 31 December 2021, the Group has interest-bearing bank borrowings amounted to approximately RMB250.3 million (2020: approximately RMB172.3 million) and loan from a joint venture of RMB29.2 million (2020: RMB28.0 million).

All interest-bearing bank borrowings were unsecured, guaranteed by group companies, repayable within one year and denominated in RMB, except for a bank borrowing of approximately RMB40.3 million (2020: approximately RMB72.3 million) which was secured by a letter of guarantee issued by a bank (that is, in turn, secured by certain bank deposits of the Group), guaranteed by a director of the Company, repayable after one year and denominated in Euro. The Group's bank borrowings of RMB180.0 million (2020: RMB70.0 million) carry fixed interest rates at rates range from 3.28% to 3.45% per annum (2020: range from 3.45% to 4.35% per annum) and bank borrowings of approximately RMB70.3 million (2020: approximately RMB102.3 million) carry variable market interest rates ranging from 0.74% to 3.60% per annum (2020: ranging from 1.86% to 4.35% per annum).

The loan from a joint venture is unsecured, interest bearing at 4.35% per annum and repayable within one year.

Charges on the Group's assets

As at 31 December 2021, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totaling approximately RMB51.1 million (2020: approximately RMB152.0 million) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

Gearing ratio

As at 31 December 2021, the gearing ratio of the Group, which was calculated by dividing the total liabilities by the total equity, was approximately 77.2% (2020: approximately 68.3%).

Currency risk

While the Group's operations were principally conducted in the PRC during the year ended 31 December and it mainly recorded sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company, amount due to a director and a bank borrowing denominated in foreign currencies other than RMB. The Group may use any contracts to hedge against its exposure to currency risk, as appropriate. The Directors have managed the foreign currency risk by closely monitoring the movement of the foreign currency rate.

Management Discussion and Analysis

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, loan from a joint venture, lease liabilities and fixed rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial instruments, mainly, restricted bank balances, bank balances and variable rate bank borrowings which carried at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

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 failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to trade and bills receivables arising from contracts with customers and other receivables. In order to minimise the credit risk, the Directors have delegated a team of staff responsible for determining credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In this regard, the Directors consider that the Group's credit risk is significantly reduced. Besides, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of expected credit loss ("ECL") of trade, bills and other receivables based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective other receivables and adjusted for forward-looking information.

For bank deposits and balances, the management of the Group assessed that the Group's bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances are at low credit risk because they are placed with reputable banks with higher internal credit ratings with reference to either international or PRC credit-rating agencies, and ECL is insignificant.

The Group has concentration of credit risk because approximately 83.8% (2020: approximately 93.9%) of trade receivables as at 31 December 2021 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

Other than the above, the Group does not have significant concentration of credit risk.

Liquidity risk

The Group's management monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available and issue of new ordinary shares.

Capital commitments

As at 31 December 2021, the Group had no capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment (2020: approximately RMB1.1 million).

Management Discussion and Analysis

Future plans for material investments

The Group will continue to invest in its development projects and acquire suitable plant and machinery as it thinks fit. These investments will be funded by internal resources, external equity financing and/or borrowings. Save as disclosed in this report, the Group does not have any future plans for material investments as at the date of this report.

Employees, remuneration policies and Share Option Scheme

As at 31 December 2021, the Group had approximately 320 employees (2020: approximately 370). For the year ended 31 December 2021, the Group incurred staff costs of approximately RMB50.5 million (2020: approximately RMB37.4 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

The Company granted a total of 112,000,000 share options under the share option scheme on 27 May 2021, which were exercisable from 27 May 2021 to 26 May 2031 by the relevant grantees (all being employees of the Group). All such options were exercised and the closing price on the date of exercising such options was HK\$0.330 per share. During the year ended 31 December 2021, no share options under the share option scheme were cancelled or lapsed.

Equity-settled share-based payment expenses of approximately RMB14,934,000 (2020: nil) were recognised during the year.

Contingent liabilities and litigation

The Group did not have any contingent liabilities and litigation as at the date of this report.

B. USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 12 December 2016, the Company issued 280,000,000 shares at an offer price of HK\$1.02 per share for the purpose of the global offering of the Company (the “**Global Offering**”). Upon completion of the Global Offering, the Company raised gross proceeds of approximately HK\$285.6 million. The proceeds, after deducting payment for remaining listing expenses, amounted to approximately HK\$248.4 million (the “**Net Proceeds**”), which are intended to be utilised in accordance with the proposed application set out in the section headed “Future plans and use of proceeds” in the Prospectus of the Company dated 30 November 2016 (the “**Prospectus**”).

As disclosed in the annual report of the Company for the year ended 31 December 2019, the announcement of the Company dated 11 August 2020 and the annual report of the Company for the year ended 31 December 2020, as at 31 December 2020:

- (i) approximately HK\$127.1 million of the Net Proceeds had been fully utilised in accordance with their intended purposes as set out in the Prospectus; and

Management Discussion and Analysis

- (ii) the remaining Net Proceeds of approximately HK\$121.3 million, which were intended to be used for constructing phase II of the Jin Tan Factory had not been fully utilised by the Group, as such construction was delayed due to the limited land pool held by the relevant government authority. As an interim measure, approximately HK\$56.1 million had been used by the Group to purchase the necessary equipment to satisfy such production plans. It was initially anticipated by the Group that (i) the acquisition of land for phase II of the Jin Tan Factory would be completed by 30 June 2021; and (ii) the construction of the office and production facilities and installation of production facilities and equipment would be completed by 30 September 2022.

As disclosed in the announcement of the Company dated 6 July 2021, the Board resolved to reallocate the unutilised balance of the Net Proceeds in the amount of approximately HK\$64.5 million to be used as the Group's general working capital. The summary of the use of the Net Proceeds are set forth below:

| | Original allocation of Net Proceeds | Revised allocation of Net Proceeds | Actual use of Net Proceeds utilised as at 31 December 2021 | Remaining balance of Net Proceeds as at 31 December 2021 |
|---|--|---|---|---|
| | HK\$'000,000 | HK\$'000,000 | HK\$'000,000 | HK\$'000,000 |
| For constructing the phase II expansion plan of our Jin Tan Factory | 121.3 | 56.8 | 56.8 | – |
| For upstream development or acquisition of the optical fibre cable production value chain | 70.8 | 70.8 | 70.8 | – |
| For research and development of diversified new products and services, and setting up a laboratory accredited by China National Accreditation Service for Conformity Assessment | 25.0 | 25.0 | 25.0 | – |
| For repaying parts of the bank loans drawn down from a financial institution | 15.1 | 15.1 | 15.1 | – |
| For additional working capital and other general corporate purpose | 16.2 | 80.7 | 80.7 | – |
| Total | 248.4 | 248.4 | 248.4 | – |

Please refer to the announcements of the Company dated 11 August 2020 and 6 July 2021 for further details regarding the changes in the use of proceeds.

Management Discussion and Analysis

C. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to comply with relevant environmental laws and legislations, and continual improvement on its performance. The Company will issue a separate Environmental, Social and Governance Report no later than two months after the date of this report in compliance with the Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange the (“**Listing Rules**”).

D. KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintain a good relationship with its employees, customers and suppliers. For more details on how it creates a motivated workplace for its employees, produce quality products to satisfy its customers’ expectations and, establish long-term relationships with its suppliers, please refer to the separate Environmental, Social and Governance Report to be issued by the Company.

E. COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2021, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

F. CONTINUING CONNECTED TRANSACTIONS SUBJECT TO REPORTING REQUIREMENT

During the Year, the Group has conducted the following continuing connected transactions under Chapter 14A of the Listing Rules (“**the Disclosed Continued Connected Transactions**”).

1. On 27 August 2013, Jiangsu Nanfang Optic Electric Technology Company Limited* (江蘇南方光纖科技有限公司) (“**Nanfang Optic**”) and Jiangsu Nanfang Communication Technology Company Limited* (江蘇南方通信科技有限 公司) (“**Nanfang Communication**”), an indirect wholly-owned subsidiary of the Company, entered into an optical fibre supply agreement (the “**Optical Fibre Supply Agreement**”) in respect of the purchase of optical fibres from Nanfang Optic as raw materials for the Group’s production of optical fibre cables for a term of 15 years.

Nanfang Optic is held as to 47% by Jiangsu Hengtong Optic-Electric Company Limited* (江蘇亨通光電股份有限 公司) (“**Jiangsu Hengtong**”), the holding company of Jiangsu Hengtong Light Guide New Materials Company Limited* (江蘇亨通光導新材料有限公司) (“**Hengtong Light Guide**”). Hengtong Light Guide is a connected person of the Company at the subsidiary level (as explained below). As such, Nanfang Optic is regarded as an associate of Hengtong Light Guide for the purpose of the Listing Rules and is also considered as a connected person of the Company at the subsidiary level. Details of the Optical Fibre Supply Agreement were set out in the Company’s announcement dated 25 October 2017.

For the year ended 31 December 2021, the purchase of optical fibres from Nanfang Optic by the Group under the Optical Fibre Supply Agreement totalled approximately RMB106,395,000.

* For identification purpose only

Management Discussion and Analysis

2. On 31 December 2020, Hengtong Light Guide and Jiangsu Yingke Optical Material Technology Company Limited* (江蘇盈科光導科技有限公司) (“**Yingke Optical Material**”) entered into a lease agreement (the “**Lease Agreement**”) in relation to the lease of the factory premises from Hengtong Light Guide to Yingke Optical Material for production of optical fibre preforms from 1 January 2021 to 31 December 2023.

Yingke Optical Material is a joint venture held as to 51% by Nanfang Communication and 49% by Hengtong Light Guide. Yingke Optical Material is therefore regarded as a subsidiary of the Company for the purpose of the Listing Rules. As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, Hengtong Light Guide is considered as a connected person of the Company at the subsidiary level. Details of the Lease Agreement were set out in the Company’s announcement dated 31 December 2020.

For the year ended 31 December 2021, the rent payable by Yingke Optical Material to Hengtong Light Guide under the Lease Agreement amounted to approximately RMB1,572,000.

3. On 31 December 2020, Hengtong Light Guide and Yingke Optical Material entered into a framework procurement agreement (the “**Framework Procurement Agreement**”) in relation to the ongoing purchase of optical fibre preforms and raw materials for production of optical fibre preforms by Yingke Optical Material from Hengtong Light Guide from 1 January 2021 to 31 December 2023.

As aforementioned, Hengtong Light Guide is a connected person of the Company at the subsidiary level. Details of the Framework Procurement Agreement were set out in the Company’s announcement dated 31 December 2020.

For the year ended 31 December 2021, the purchase from Hengtong Light Guide by Yingke Optical Material under the Framework Procurement Agreement totalled approximately RMB57,239,000.

4. On 31 December 2020, Yingke Optical Material and Nanfang Optic entered into a framework supply agreement (the “**Framework Supply Agreement**”) in relation to the ongoing supply of optical fibre preforms by Yingke Optical Material to Nanfang Optic from 1 January 2021 to 31 December 2023.

As mentioned above, Nanfang Optic is regarded as an associate of Hengtong Light Guide for the purpose of the Listing Rules and is considered as a connected person of the Company at the subsidiary level. Details of the Framework Supply Agreement were set out in the Company’s announcement dated 31 December 2020.

For the year ended 31 December 2021, the sales to Nanfang Optic from Yingke Optical Material under the Framework Supply Agreement totalled approximately RMB93,097,000.

5. On 31 December 2020, Jiangsu Hengtong and Nanfang Communication entered into an agreement in relation to the ongoing mutual sale and purchase of communication products (the “**Relevant Products**”), including optical fibre preforms, optical fibre and optical fibre cables and their raw materials, between Nanfang Communication and its affiliates (“**Nanfang Communication Group**”) and Jiangsu Hengtong and its affiliates (“**Jiangsu Hengtong Group**”) (the “**Jiangsu Hengtong Framework Procurement and Supply Agreement**”) from 1 January 2021 to 31 December 2023.

* For identification purpose only

Management Discussion and Analysis

As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, Jiangsu Hengtong is therefore considered as a connected person of the Company at the subsidiary level. Details of the Jiangsu Hengtong Framework Procurement and Supply Agreement were set out in the Company's announcement dated 31 December 2020.

For the year ended 31 December 2021, under the Jiangsu Hengtong Framework Procurement and Supply Agreement, the purchase of the Relevant Products by Nanfang Communication Group from Jiangsu Hengtong Group was approximately RMB1,322,000.

The Company's auditor was engaged to report on the Disclosed Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the Disclosed Continuing Connected Transactions disclosed by the Group in this report (where applicable) in accordance with Rule 14A.56 of the Listing Rules as below:

- a. nothing has come to their attention that causes them to believe that the Disclosed Continuing Connected Transactions have not been approved by the Company's board of directors.
- b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.
- c. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the Disclosed Continuing Connected Transactions have exceeded the annual cap as set by the Company.

The independent non-executive Directors have reviewed the continuing connected transactions and confirmed that the continuing connected transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Management Discussion and Analysis

G. RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are disclosed in note 36 to the consolidated financial statements.

Save as the continuing connected transactions disclosed in the section headed "F. Continuing Connected Transactions Subject to Reporting Requirement" above, all other connected transactions disclosed in note 36 to the consolidated financial statements are fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A.76(1) or 14A.95 of the Listing Rules.

The Company has complied with the requirements under Chapter 14A of the Listing Rules in respect of the connected transactions carried out by the Group as disclosed in this report.

H. SIGNIFICANT INVESTMENTS

As at 31 December 2021, the Group held the following significant investments:

1. Nanfang Communication, holds 49% of the shareholding in Nanfang Optic, and made a total investment of approximately RMB73.5 million up to 31 December 2021. Nanfang Optic is a company incorporated in the PRC which is principally engaged in the manufacturing and sales of optical fibre. No market fair value was available as at 31 December 2021 as this is a private company. The investment is intended to be held for a long term. During the Year, the Group shared an associated profit of approximately RMB77,000 in respect of its investment in Nanfang Optic. Please refer to note 16 to the consolidated financial statements for further details.
2. Nanfang Communication also holds 51% of the shareholding in Yingke Optical Material, and made a total investment of approximately RMB76.5 million up to 31 December 2021. Yingke Optical Material is principally engaged in the manufacturing and sales of optical fibre preforms. No market fair value was available as at 31 December 2020 as this is a private company. The investment is intended to be held for a long term. During the year ended 31 December 2021, the Group shared a profit of approximately RMB4.6 million in respect of its investment in Yingke Optical Material. Please refer to note 17 to the consolidated financial statements for further details.
3. Pacific Smart Development Limited ("**Pacific Smart**"), an indirectly non-wholly owned subsidiary of the Company, owned 8,095,527 class A preferred shares of Venus Pearl SPV2 Co Limited, representing approximately 4.59% of its total issued share capital, with a total investment of approximately US\$23 million contributed by the Group up to 31 December 2021. Venus Pearl SPV2 Co Limited is a company incorporated in the Cayman Islands which is principally engaged in investment holding. The fair value of the investment was approximately RMB153,016,000 as at 31 December 2021, representing approximately 11.3% of the total assets of the Group. During the Year, the Group had not received any dividend or recorded any investment gain/loss.

The investment is intended to be a long term investment in view of the positive business synergies to be generated in the long run between the Company and Source Photonics Group, a leading global provider of advanced technology solutions for optical communications and data connectivity that is wholly owned by Venus Pearl SPV2 Co Limited. Please refer to note 18 to the consolidated financial statements for further details.

Save as aforesaid, the Company did not hold any other significant investments during the year ended 31 December 2021.

Directors' and Senior Management's Profile

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Shi Ming (石明先生), aged 50, was appointed as our Director on 10 May 2016 and designated as our executive Director on 22 June 2016. He is also our chief executive officer. Mr. Shi was appointed as a general manager of Nanfang Communication in June 2007. Mr. Shi is mainly responsible for overseeing our overall management and operations, investment strategies and business development. Mr. Shi had worked in a number of well-known PRC corporations and multinational corporations and has over 20 years of experience in enterprise management. Mr. Shi is also a director of each of Century Planet Limited ("**Century Planet**"), Nanfang Communication Group Limited ("**Nanfang Hong Kong**"), MacroSmart Investment Limited* (敏博投資有限公司) ("**MacroSmart**"), Jiangsu Yingke Communication Technology Company Limited* (江蘇盈科通信科技有限有限公司) ("**Yingke**"), Jiangsu Nanfang Information Technology Company Limited* (江蘇南方信息技術有限公司) ("**Nanfang IT**"), Nanfang Optic, Gold Image Limited ("**Gold Image**") and Pacific Smart.

Mr. Shi graduated from Jiangsu Institute of Petrochemical Technology (江蘇石油化工學院) (currently known as Changzhou University (常州大學)) in July 1994 with a bachelor degree in chemical engineering and also obtained a bachelor degree in industrial foreign trade from Nanjing University of Science and Technology (南京理工大學) in July 1996. Mr. Shi is a qualified senior operating manager (高級經營師). Mr. Shi is now studying the Doctoral of Professional Studies in Business program at the Gabelli School of Business in the Fordham University, the United States.

Mr. Shi received Industry Outstanding Contribution Award (產業突出貢獻獎) from Communication Cable and Fibre Optic Cable Professional Committee of China Association of Communication Enterprises (中國通信企業協會通信電纜光纜專業委員會) in 2011. He was awarded the "Innovative Individual in Telecommunications Industry in the PRC (中國通信光電纜新銳人物)" by CCTIME.com (飛象網) in 2015, and the "National May Day Brand Construction Award – Leading Person (全國五一品牌建設獎-領軍人物)" in 2016 China Brand Innovation Forum and National May Day Brand Construction Award Electing activities (2016 中國品牌創新論壇暨全國五一品牌建設獎推選活動) in May 2016.

Mr. Shi is the spouse of Ms. Yu Rumin, son-in-law of Mr. Yu Jinlai and brother-in-law of Ms. Yu Ruping.

Mr. Shi is deemed to be interested in the 840,000,000 Shares held by Pacific Mind Development Limited ("**Pacific Mind**") under the Securities Future Ordinance (the "**SFO**") as interests of spouse. Mr. Shi is personally interested in 41,400,000 Shares. As a result, Mr. Shi is interested in 881,400,000 Shares in total as at the date of this report. For details, please refer to page 27 of this report.

Ms. Yu Rumin (於茹敏女士), aged 45, was appointed as our Director on 10 May 2016 and designated as our executive Director on 22 June 2016. Ms. Yu joined our Group as a manager in the enamelled wire business development department of Nanfang Communication in May 2001 and was appointed as a vice general manager of Nanfang Communication in October 2011. Ms. Yu is primarily responsible for overseeing business development, financial control and human resources management. Ms. Yu is also a director of each of Century Planet, Nanfang Hong Kong, Yingke, Nanfang Optic, Gold Image and Pacific Smart.

Ms. Yu graduated from Jiangsu Teachers University of Technology (江蘇技術師範學院) (currently known as Jiangsu University of Technology (江蘇理工學院)) in July 2004 with a major of financial accounting education. She is a qualified senior economist (高級經濟師) and a certified tax planner (註冊納稅籌劃師). Ms. Yu has over 20 years of experience in communication optical cable industry. Prior to joining the Group, Ms. Yu worked for Luoyang Town's People's Government of Wujin District (武進區洛陽鎮人民政府) between 1996 and 2001.

* For identification purpose only

Directors' and Senior Management's Profile

Ms. Yu is the spouse of Mr. Shi Ming, sister of Ms. Yu Ruping and daughter of Mr. Yu Jinlai.

Ms. Yu is a controlling shareholder of the Company. As founder of a discretionary trust, she is taken to be interested in the 840,000,000 Shares held by Pacific Mind by virtue of the SFO. Further, Ms. Yu is deemed to be interested in the 41,400,000 Shares held by Mr. Shi Ming under the SFO as interests of spouse. Ms. Yu is therefore interested in 881,400,000 Shares in total as at the date of this report. For details, please refer to page 27 of this report.

Ms. Yu Ruping (於茹萍女士), aged 46, was appointed as our Director on 10 May 2016 and was designated as our executive Director on 22 June 2016. Ms. Yu Ruping ("**Ms. Yu RP**") joined our Group as a finance officer of Nanfang Communication in September 2006, and has been mainly responsible for supervising the accounting and internal audit functions of the Group. Ms. Yu RP is a director of each of Century Planet, Nanfang Hong Kong, MacroSmart, Gold Image and Pacific Smart. She is also a supervisor of Nanfang Communication, Nanfang Optic, Nanfang IT, Yingke and Yingke Optical Material.

Ms. Yu RP completed a three-year study programme in pharmacy at the Professional School of Health Work of Wu Jin of Changzhou (常州市武進衛生職工中等專業學校) in December 2003. Ms. Yu RP has over 15 years of experience in communication optical cable industry. She is a certified tax planner (註冊納稅籌劃師).

Ms. Yu RP is the sister of Ms. Yu Rumin, daughter of Mr. Yu Jinlai and sister-in-law of Mr. Shi Ming.

Ms. Yu RP is deemed to be interested in the 840,000,000 Shares held by Pacific Mind under the SFO since she is a beneficiary of a discretionary trust. For details, please refer to page 27 of this report.

NON-EXECUTIVE DIRECTOR

Mr. Yu Jinlai (於金來先生), aged 73, was appointed as our Director on 10 May 2016 and was designated as our non-executive Director on 22 June 2016. He is the chairman of the Board. Mr. Yu has been acting as the legal representative of Nanfang Communication since July 1992 when Nanfang Communication was first established. He has been a director of Nanfang Communication since 1998. He is mainly responsible for providing strategic advice and making recommendations on the operations and management of the Group. Mr. Yu is also a director of MacroSmart and Yingke.

Mr. Yu obtained an executive master course certificate in business administration from Shanghai Jiaotong University (上海交通大學) in November 2008. Mr. Yu has over 30 years of experience in enterprise management. Since May 1987, Mr. Yu has been a director of Changzhou Jingke Company Limited (常州精科實業有限公司), a company established in the PRC focusing on the manufacturing and sales of clocks and watches.

Mr. Yu is the father of Ms. Yu Rumin and Ms. Yu Ruping and father-in-law of Mr. Shi Ming.

Mr. Yu is deemed to be interested in the 840,000,000 Shares held by Pacific Mind under the SFO since he is a beneficiary of a discretionary trust. For details, please refer to page 27 of this report.

Directors' and Senior Management's Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Wing Kuen (胡永權先生), aged 65, was appointed as our independent non-executive Director on 24 November 2016. Mr. Wu was awarded a Bronze Bauhinia Star from the Hong Kong Government in July 2012 in recognition for his meritorious public and community services. Mr. Wu is currently a voting member of the Hong Kong Jockey Club and the president of the Sha Tin District Community Fund.

Mr. Wu is currently the independent non-executive director of EFT Solutions Holdings Limited (stock code: 8062), Palinda Group Holdings Limited (stock code: 8179) and HG Semiconductor Limited (formerly known as HongGuang Lighting Holdings Company Limited) (stock code: 6908). Mr. Wu also served as an independent non-executive director of Million Cities Holdings Limited (stock code: 2892) from June 2018 to December 2021.

Mr. Chan Kai Wing (陳繼榮先生), aged 61, was appointed as our independent non-executive Director on 24 November 2016. Mr. Chan has over 30 years of professional experience in auditing and accounting, corporate financial management and financial advisory services. Mr. Chan obtained a bachelor degree of economics from Macquarie University, Australia in April 1986. He is a fellow member of CPA Australia.

Mr. Chan is currently the independent non-executive director of China Conch Venture Holdings Limited (stock code: 586). In addition, Mr. Chan formerly served as an independent non-executive director of China Assurance Finance Group Limited (which was delisted from the Stock Exchange in March 2021 with stock code 8090).

Mr. Lam Chi Keung (林芝強先生), aged 51, was appointed as our independent non-executive Director on 24 November 2016. Mr. Lam has over 25 years of professional experience in accounting and financial management and held various finance/accounting-related positions in international accounting firms and companies. Mr. Lam obtained a bachelor degree of science in accounting from Brigham Young University-Hawaii in December 1996. He also obtained a master degree of science in e-commerce from the Chinese University of Hong Kong in December 2002. Mr. Lam is a fellow of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and a member of the American Institute of Certified Public Accountants.

Mr. Lam is currently an independent non-executive director of Universe Entertainment and Culture Group Company Limited (stock code: 1046).

SENIOR MANAGEMENT'S PROFILE

Mr. Huang Zhengou (黃正歐先生), aged 60, was appointed as the deputy general manager and head of production management centre of Nanfang Communication in 2016. He joined Nanfang Communication in November 2012 as a technical supervisor (技術總監) and was appointed as general manager of the manufacturing and operation centre of Nanfang Communication in December 2017. Mr. Huang is mainly responsible for the overall manufacturing and operation management and research and development of new products of the Group. Mr. Huang graduated from Yangzhou Industry Technical College (揚州工業專科學校) in December 1981 with major in machinery manufacturing. Mr. Huang completed machinery design and manufacturing courses at Mechanical Engineer Further Education University (機械工程師進修大學) in October 1989. Mr. Huang is a qualified senior engineer (高級工程師).

Directors' and Senior Management's Profile

Prior to joining the Group, Mr. Huang worked for Yangzhou Tianhong Optical Cable Co., Ltd (揚州天虹光纜有限公司), a company which principally engages in production of optical fibre cables and electrical cables, as the chief engineer between 1994 and 2007. Between 2007 and 2012, Mr. Huang served as chief engineer at Hubei Kaile Science and Technology Company Limited (湖北凱樂科技股份有限公司), a company whose A shares are listed on the Shanghai Stock Exchange (stock code: 600260) which principally engages in production of optical fibre cables.

Mr. Zhu Xiaolei (朱曉雷先生), aged 53, was appointed as our general manager in sales in March 2016. Mr. Zhu joined the Group as a sales personnel in May 1997. Mr. Zhu is mainly responsible for supervising the overall sales strategies and bidding process of the Group. Mr. Zhu completed a three-year professional study in economic management from Cadre Correspondence School of CPC Jiangsu Provincial Party School (中共江蘇省委黨校幹部函授學院) in July 2008.

Prior to joining the Group, Mr. Zhu worked as a branch manager at Jiangsu Shinco Electronics Group Company Limited (江蘇新科電子集團有限公司), a company which principally engages in production of consumer electronic products, between 1991 and 1996.

Mr. Dong Zhonggang (董仲剛先生), aged 40, joined Nanfang Communication in September 2017 and was appointed as a project manager. He is responsible for the research and development of the Group's optical distribution network products. He graduated from Wuhan University of Science and Technology in July 2003 and majored in industrial and civil construction engineering.

Prior to joining the Group, Mr. Dong worked for Shenzhen Maikexing Communication Equipment Co., Ltd. (深圳邁科星通信設備有限公司) as a design engineer and manager of its technology department between 2004 and 2009. From 2009 to 2017, he worked for Zhongtian Broadband Technology Co., Ltd. (中天寬帶技術有限公司) as manager of its technology department, manager of its production department and manager of its research and development department.

Mr. Ge Yuelai (葛月來先生), aged 52, joined Nanfang Communication in July 2018. He is currently the Group's manufacturing and operation director and responsible for its manufacturing and operation management. From July 2018 to August 2020, he served as the Group's quality control director and was responsible for its quality management. He graduated from Jiangsu Hydro Project Training School (江蘇水利工程專科學校) in July 1991 and majored in electrical engineering.

Mr. Ge has over 20 years of experience in the optical fibre cable industry. He held various positions with Yangzhou Tianhong Optical Fibre Cable Co., Ltd. (揚州天虹光纜有限公司) from July 1997 to May 2006. From June 2006 to March 2008, he served as manager of the Group's optical fibre cable business unit. From April 2008 to April 2018, he worked for Yangzhou Ouhua Automation System Engineering Company (揚州市歐化自動化系統工程公司) as a manager.

Ms. Lo Moon Fong (羅滿芳女士), aged 46, was appointed as the company secretary and finance manager in June 2016. She is responsible for financial reporting and compliance of the Group. Ms. Lo graduated with a bachelor degree in business administration from the Hong Kong University of Science and Technology in November 1998. She is a member of the HKICPA and is a Certified Financial Planner.

Ms. Lo has over 20 years of experience in the accounting, tax and finance industry. Between August 1998 and October 2006, Ms. Lo worked in PricewaterhouseCoopers Limited in Hong Kong, specialising in tax services. Ms. Lo was the company secretary of New City Development Group Limited (stock code: 456), whose shares are listed on the Main Board of the Stock Exchange, between April 2012 and July 2015.

Report of the Directors

The Board is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in manufacturing and sales of optical fibre cables and related devices in the PRC as well as processing and sales of prepainted steel sheets. Details of the principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 and the Group's financial position at that date are set out in the consolidated financial statements of the Group on pages 49 to 132 of this report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2021 to shareholders of the Company.

BUSINESS REVIEW

Details of which are set out in the paragraph headed "Chairman's Statement" on page 6 and under the section headed "Management Discussion and Analysis", which form part of this report of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group's five largest suppliers contributed approximately 50.8% of the Group's total purchase. The Group held 49% equity interest in Nanfang Optic, being the largest supplier of the Group, has contributed approximately 24.7% of the Group's total purchase.

The Group sold products directly to customers which included the Major PRC Telecommunication Network Operators. The largest customer has accounted for approximately 48.5% of the total sales. The Group's five largest customers contributed approximately 82.9% of the Group's total sales. Save as disclosed above, none of the Directors, their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in any of the Group's five largest customers and suppliers.

SHARE CAPITAL

Details of the movement of share capital of the Company are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's reserves available for distribution amounted to approximately RMB271,130,000. Please refer to note 39 to the consolidated financial statements for more details.

DIRECTORS

The Directors during the Year and up to the date of this report were:

| | | |
|-------------------------------------|---|--|
| Chairman and non-executive Director | : | Mr. Yu Jinlai |
| Executive Directors | : | Mr. Shi Ming (<i>Chief executive officer</i>) Ms. Yu Rumin Ms. Yu Ruping |
| Independent non-executive Directors | : | Mr. Wu Wing Kuen Mr. Lam Chi Keung Mr. Chan Kai Wing |

In accordance with the articles of association of the Company (the “**Articles**”), Mr. Yu Jinlai, Mr. Shi Ming and Mr. Lam Chi Keung shall retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company (the “**AGM**”).

The Company has received annual confirmation of independence from each of the independent non-executive Directors and as at the date of this report still considers them to be independent.

DIRECTORS’ SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company on 24 November 2016 commencing from the date of Listing, and subsequently for another term of three years in December 2019 upon the expiration of the previous service agreement, and such service agreements may be terminated in accordance with the terms of the service agreements.

Each of the non-executive Director and independent non-executive Directors was appointed by the Board pursuant to their respective letters of appointment dated 24 November 2016 commencing from the date of Listing, and subsequently for another term of three years in December 2019 upon the expiration of the previous letter, and such appointment may be terminated in accordance with the terms of the letters of appointment.

All the Directors are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the Articles.

Saved as disclosed in this report, no Director has a service contract that is not determinable within one year without payment of compensation, other than statutory compensation.

Each of the executive Directors is entitled to a basic remuneration pursuant to their respective service agreement which is determined with reference to their responsibilities, experience, performance and the prevailing market conditions. In addition, each of them is entitled to a bonus of such amount as the Board may determine in respect of each complete financial year of the Company and other benefits.

Each of the non-executive Director and independent non-executive Directors is entitled to a remuneration pursuant to their respective letter of appointment, which is determined with reference to their responsibilities, experience, performance and the prevailing market conditions.

Report of the Directors

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group, none of the Directors and controlling shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Group during the Year and up to the date of this report.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

Save as the related party transactions disclosed in note 36 to the consolidated financial statements, there was no contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which any of the controlling shareholder (as defined in the Listing Rules) had a material interest subsisted at the end of the Year or at any time during the Year.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Each of the controlling shareholders has made an annual declaration in respect of their compliance with the terms of non-competition undertaking. Details of the non-competition undertaking are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus.

Directors' interest in contracts

Save as disclosed in the Prospectus and this report, there was no transaction, arrangement or contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest subsisted at the end of the Year or at any time during the Year.

Management Contracts

No contracts, other than a contract of service with any executive Director or any person engaged under the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2021.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, the interests and short positions of the Directors and chief executive of the Company 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 were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Interests in the shares and underlying shares of the Company

| Name of Director | Nature of interest | Number of shares or underlying shares held ⁽¹⁾ | Approximate % of shareholding |
|-------------------------------------|--------------------------------------|---|-------------------------------|
| Ms. Yu Rumin ^{(2)&(5)} | Founder of a discretionary trust | 840,000,000 (L) | 56.82 |
| Mr. Yu Jinlai ⁽³⁾ | Beneficiary of a discretionary trust | 840,000,000 (L) | 56.82 |
| Ms. Yu Ruping ⁽³⁾ | Beneficiary of a discretionary trust | 840,000,000 (L) | 56.82 |
| Mr. Shi Ming ^{(4)&(5)} | Interests of spouse | 840,000,000 (L) | 56.82 |

Notes:

- (1) The letter "L" denotes the person's "long position" (as defined under Part XV of the SFO) in the relevant shares.
- (2) Pacific Mind owned 840,000,000 Shares, representing 56.82% of the total number of the Shares. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee, holding the entire issued share capital of Pacific Mind for UBS TC (Jersey) Limited ("Trustee"). The Trustee is a trustee of a discretionary trust ("Family Trust") set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries. Ms. Yu Rumin as founder of the Family Trust is taken to be interested in the 840,000,000 Shares held by Pacific Mind by virtue of Part XV of the SFO.
- (3) The Shares were held by Pacific Mind in the capacity of a legal beneficial owner. Since each of Mr. Yu Jinlai and Ms. Yu Ruping is a beneficiary of the family trust, each of Mr. Yu Jinlai and Ms. Yu Ruping was deemed to be interested in the shares held by Pacific Mind under the SFO.
- (4) Mr. Shi Ming is the spouse of Ms. Yu Rumin, and is therefore deemed under the SFO to be interested in the Shares held by Ms. Yu Rumin.
- (5) The Company was informed by Mr. Shi Ming on 3 January 2022 and 5 January 2022 that he had personally acquired 22,400,000 and 19,000,000 Shares, respectively. As Ms. Yu Rumin is the spouse of Mr. Shi Ming, she is therefore deemed under the SFO to be interested in the Shares held by Mr. Shi Ming. As at the date of this Report, both Ms. Yu Rumin and Mr. Shi Ming are interested in 881,400,000 Shares, representing approximately 59.62% of the total number of the Shares.

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executive of the Company and their respective associates had any interest or short position 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 had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Report of the Directors

SHARE OPTION SCHEME

Pursuant to written resolutions passed on 24 November 2016, the Company adopted a share option scheme (the “**Share Option Scheme**”). The Share Option Scheme is valid for a period of 10 years commencing on 24 November 2016. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the board of Directors may, at its discretion, grant options to subscribe for shares of the Company to eligible participants (“**Eligible Participant(s)**”) who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries or any entity (“**Invested Entity**”) in which any member of the Group holds an equity interest; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option of the Group must not in aggregate exceed 10% of the shares in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

The maximum entitlement of each Eligible Participant under the Share Option Scheme shall be:

- (a) Subject to paragraph (b) below, the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to an Eligible Participant under the Share Option Scheme would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant is subject to the shareholders’ approval; and
- (b) Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s ordinary shares at the date of the grant) in excess of HK\$5,000,000, within any twelve-month period, are subject to shareholders’ approval in advance in a general meeting.

Report of the Directors

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, save that such period shall not be more than ten years from the date of the offer of the share options, subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the Directors at their absolute discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised. In addition, there is no performance target which must be achieved before any of the options can be exercised.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's ordinary shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's ordinary shares for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the Company's ordinary shares on the date of the offer.

Movements in the share options granted and exercised during the Reporting Period were as follows:

| Category of grantees | Date of grant (Note 1) | Validity period (exercise period) | Exercise price per Share | As at 1 January 2021 | Number of options granted during the Reporting Period | Number of options exercised during the Reporting Period (Note 2) | As at 31 December 2021 |
|------------------------|---------------------------|--------------------------------------|-----------------------------|----------------------------|--|--|------------------------------|
| Employees of the Group | 27 May 2021 | 27 May 2021 to 26 May 2031 | HK\$0.342 | - | 112,000,000 | (112,000,000) | - |
| Total | | | | - | 112,000,000 | (112,000,000) | - |

Notes:

- The closing price immediately before the date of grant was HK\$0.340 per share.
- All the share options listed above were exercised on 11 June 2021. The weighted average closing price immediately before the date of exercise was HK\$0.330 per share.
- The share options listed above do not have any vesting period.
- During the Reporting Period, no share options under the Share Option Scheme were cancelled or lapsed.

Equity-settled share-based payment expenses of approximately RMB14,934,000 (2020: not applicable) were recognised during the Reporting Period.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors 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 any of their spouse or children under the age of 18, had any rights to subscribe for the securities of the Company, or exercised any such rights.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to any Directors or chief executive of the Company, as at 31 December 2021, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Interests in the shares and underlying shares of the Company

| Name | Nature of interest | Number of shares or underlying shares held ⁽¹⁾ | Approximate % of shareholding ⁽²⁾ |
|---|--------------------------------------|---|--|
| Pacific Mind Development Limited ⁽³⁾ | Beneficial owner | 840,000,000 (L) | 56.82 |
| UBS TC (Jersey) Limited ⁽³⁾ | Trustee | 840,000,000 (L) | 56.82 |
| UBS Nominee Limited ⁽³⁾ | Interested in controlled corporation | 840,000,000 (L) | 56.82 |
| Ms. Zhu Qinying ⁽⁴⁾ | Interest of spouse | 840,000,000 (L) | 56.82 |
| Mr. Yu Jianguang ⁽⁵⁾ | Interest of spouse | 840,000,000 (L) | 56.82 |

Notes:

- (1) The letter "L" denotes the person's "long position" (as defined under Part XV of the SFO) in the relevant shares.
- (2) The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2021.
- (3) Pacific Mind owned 840,000,000 Shares, representing 56.82% of the total number of the Shares. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee holding the entire issued share capital of Pacific Mind for the Trustee in respect of the Family Trust. The Trustee is a trustee of the Family Trust set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries.
- (4) Ms. Zhu Qinying is the spouse of Mr. Yu Jinlai and is therefore deemed under the SFO to be interested in the Shares held by Mr. Yu Jinlai.
- (5) Mr. Yu Jianguang is the spouse of Ms. Yu Ruping and is therefore deemed under the SFO to be interested in the Shares held by Ms. Yu Ruping.

Save as disclosed above, as at 31 December 2021, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

PERMITTED INDEMNITY PROVISION

The Company has arranged for liability insurance cover to indemnify the Board against liability for compensation arising from their corporate activities. Purchase of liability insurance can enhance the Company's ability to reduce exposure to risks. The insurance coverage is reviewed by the Company on an annual basis. Save as disclosed, no permitted indemnity provision (whether made by the Company or otherwise) is in force for the benefit of one or more Directors.

DONATION

During the year ended 31 December 2021, the Group made charitable and other donations amounting to RMB312,000 (2020: RMB745,300).

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, after the Reporting Period and up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors.

Report of the Directors

CLOSURE OF BOOK FOR REGISTER OF MEMBERS

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from 24 June 2022 (Friday) to 29 June 2022 (Wednesday), both days inclusive. The latest time to lodge transfer documents for registration will be at 4:30 p.m. on 23 June 2022 (Thursday).

In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the dates and times stated above.

AUDITOR

Deloitte Touche Tohmatsu has resigned as the auditor of the Company with effect from 4 August 2021. BDO Limited has been appointed as the auditor of the Company with effect from 4 August 2021 to fill the casual vacancy.

BDO Limited shall retire in the forthcoming AGM and, being eligible, will offer themselves for reappointment. A resolution will be proposed at the forthcoming AGM to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Yu Jinlai

Chairman

30 March 2022, Hong Kong

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and believes that good corporate governance can (i) enhance management effectiveness and efficiency; (ii) increase the management transparency of the Company; (iii) enhance risk management and internal control of the Company; and (iv) safeguard the interests of the shareholders of the Company and the Company as a whole.

The Company has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2021. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct regarding securities transactions by the Directors. The Company, after making specific inquiries to all Directors, confirmed that all of them have complied with the required standards in the Model Code for the year ended 31 December 2021 and up to the date of this report.

PUBLICATION OF THE ANNUAL REPORT

The Company’s 2021 annual report will be despatched to the Company’s shareholders on or before 28 April 2022 and will be available at the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com).

ANNUAL GENERAL MEETING

The AGM will be held on 29 June 2022 (Wednesday) and the Notice of AGM will be published and despatched in the manner as required by the Listing Rules.

THE BOARD OF DIRECTORS WITH THEIR ATTENDANCE RECORDS

| | No. of meetings attended/No. of meetings held | | | | |
|---|---|-----------------|------------------------|----------------------|-----|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee | AGM |
| Chairman and non-executive Director | | | | | |
| Mr. Yu Jinlai | 7/7 | N/A | N/A | 1/1 | 1/1 |
| Executive Directors | | | | | |
| Mr. Shi Ming (<i>chief executive officer</i>) | 7/7 | N/A | N/A | N/A | 1/1 |
| Ms. Yu Rumin | 7/7 | N/A | 1/1 | N/A | 1/1 |
| Ms. Yu Ruping | 7/7 | N/A | N/A | N/A | 1/1 |
| Independent non-executive Directors | | | | | |
| Mr. Wu Wing Kuen | 7/7 | 3/3 | 1/1 | N/A | 1/1 |
| Mr. Lam Chi Keung | 7/7 | 3/3 | N/A | 1/1 | 1/1 |
| Mr. Chan Kai Wing | 7/7 | 3/3 | 1/1 | 1/1 | 1/1 |

Corporate Governance Report

Biographical details (including age, gender, length of service and the relationships between the Board members) of the Board members are set out on pages 20 to 22 of this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the Code Provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. The roles of the chairman and the chief executive officer of the Company are separated and exercised by Mr. Yu Jinlai and Mr. Shi Ming respectively.

Mr. Yu Jinlai serves as the chairman of the Company and is responsible for providing strategic advice and making recommendations on the operations and management of the Group. Mr. Shi Ming serves as the chief executive officer of the Company and is responsible for overseeing the Group's overall management and operations, investment strategies and business development.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors and with Rule 3.10A to have such number of independent non-executive Directors representing at least one-third of the Board, together with the requirements of Rule 3.10(2) of the Listing Rules stipulating that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. The Board considers that each independent non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

The Company has received from each independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

NON-EXECUTIVE DIRECTORS AND DIRECTORS' RE-ELECTION

According to Code Provision A.4.1 of the CG Code, non-executive Directors shall be appointed for a specific term, subject to re-election. Code Provision A.4.2 of the CG Code states that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years. Each of the Directors is appointed for a specific term of three years and is subject to retirement by rotation at least once every three years. The Articles require that at each annual general meeting at least one-third of the Directors shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

In accordance with the Articles, Mr. Yu Jinlai, Mr. Shi Ming and Mr. Lam Chi Keung shall retire from office, and, being eligible, offer themselves for re-election at the forthcoming AGM.

ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Group. The Board oversees the Group's business operation, strategic development and financial performance. Directors of the Board take decisions objectively in the interests of the Group. All Board members have a broad range of valuable business experience and competence to contribute to the Board.

Corporate Governance Report

The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the executive Directors, senior management and certain specific responsibilities to the Board Committees (as defined below).

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for, amongst other things, developing and reviewing the policies and practices on corporate governance of the Group and monitoring the compliance with legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Group's compliance with the CG Code and disclosure in the annual report.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

According to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2021 to the Company.

The Company has also continuously updated the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

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

| Names of Directors | Attending or participating in seminars/conferences/corporate events or visits/reading relevant to the business/Directors' duties |
|---|---|
| Chairman and non-executive Director | |
| Mr. Yu Jinlai | ✓ |
| Executive Directors | |
| Mr. Shi Ming (<i>Chief executive officer</i>) | ✓ |
| Ms. Yu Rumin | ✓ |
| Ms. Yu Ruping | ✓ |
| Independent non-executive Directors | |
| Mr. Wu Wing Kuen | ✓ |
| Mr. Lam Chi Keung | ✓ |
| Mr. Chan Kai Wing | ✓ |

Corporate Governance Report

BOARD COMMITTEES

The Board has established three committees, namely Audit Committee, Remuneration Committee and Nomination Committee (collectively, “**Board Committees**”), to oversee different aspects of the Group’s affairs and to assist in the execution of the Board’s responsibilities.

A. AUDIT COMMITTEE

Our Company established the Audit Committee on 24 November 2016 in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules have been adopted. The primary roles of the Audit Committee include, but are not limited to, (a) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of the financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgements contained in them; (c) reviewing the financial controls, internal control and risk management systems. The Audit Committee consists of three independent non-executive Directors namely, Mr. Lam Chi Keung, Mr. Chan Kai Wing and Mr. Wu Wing Kuen. Mr. Lam Chi Keung is the chairman of the Audit Committee, and he possesses the appropriate professional qualifications as required under Rule 3.10(2) and 3.21 of the Listing Rules. The quorum of meetings of the Audit Committee shall be any two members. The terms of reference of the Audit Committee are currently made available on the websites of the Stock Exchange and the Company.

The Audit Committee will hold at least two meetings a year and will also meet the external auditor at least twice a year without the presence of the executive Directors. Terms of reference adopted by the Audit Committee are aligned with the Code Provisions set out in the CG Code.

During the year ended 31 December 2021, the Audit Committee held three meetings. Each committee meeting has been supplied with the necessary financial information of the Group for members to consider, review and assess significant issues arising from the work conducted.

B. REMUNERATION COMMITTEE

Our Company established the Remuneration Committee on 24 November 2016 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the CG Code have been adopted. The primary roles of the Remuneration Committee include, but are not limited to, (a) making recommendations to the Board on the policy and structure for the remuneration of all of the Directors and senior management personnel and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (c) making recommendations to the Board on the remuneration of non-executive Directors. The Remuneration Committee consists of one executive Director and two independent non-executive Directors, namely, Ms. Yu Rumin, Mr. Chan Kai Wing and Mr. Wu Wing Kuen. Mr. Wu Wing Kuen is the chairman of the Remuneration Committee. The quorum of meetings of Remuneration Committee shall be any two members. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company.

The Remuneration Committee will meet at least once a year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management of the Group and other related matters. Terms of reference adopted by the Remuneration Committee are aligned with the Code Provisions set out in the CG Code.

During the year ended 31 December 2021, the Remuneration Committee held one meeting for reviewing the remuneration package of the Directors of the Company and approving the remuneration proposals of senior management.

C. NOMINATION COMMITTEE

Our Company established the Nomination Committee on 24 November 2016 in compliance with paragraph A.5.1 of the CG Code. Written terms of reference in compliance with paragraph A.5.2 of the CG Code have been adopted. The primary roles of the Nomination Committee include, but are not limited to, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become the Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; and (c) assessing the independence of the independent non-executive Directors. The Nomination Committee consists of one non-executive Director and two independent non-executive Directors, namely, Mr. Yu Jinlai, Mr. Lam Chi Keung and Mr. Chan Kai Wing. Mr. Yu is the chairman of the Nomination Committee. The quorum of meetings of the Nomination Committee shall be any two members. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company.

The Nomination Committee will meet at least once a year to review the structure, size and diversity of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at annual general meetings. Terms of reference adopted by the Nomination Committee are aligned with the Code Provisions set out in the CG Code.

During the year ended 31 December 2021, the Nomination Committee held one meeting for reviewing the structure, size and composition of the Board, assessed the independence of the independent non-executive Directors and the retirement and re-election of Directors.

Corporate Governance Report

Nomination Policy

The Board has adopted the nomination policy (the “**Nomination Policy**”) which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The procedure and process to identify potential candidates for the Board would be as follows:

- 1 identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;
- 2 evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;
- 3 reviewing the profiles of the shortlisted candidates and interviewing them; and
- 4 making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors’ resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Board Diversity Policy

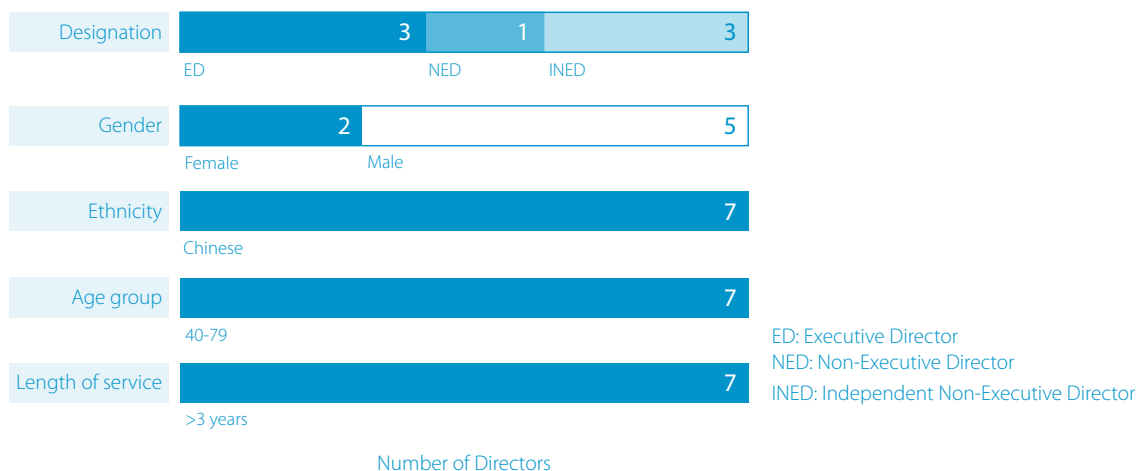
The Board adopted its Board Diversity Policy in November 2016. A summary of the policy is as follows:

In designing the Board’s composition, the Company seeks to achieve board diversity through the consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, or professional experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will disclose annually, in the corporate governance report, on the Board’s composition under diversified perspectives (including gender, age, cultural and educational background, or professional experience), and monitor the implementation of this policy. The Nomination Committee will also review the diversity policy, as appropriate, to ensure the effectiveness of the diversity policy. The Nomination Committee will discuss any revisions which may be required, and recommend any such revisions to the Board for consideration and approval.

Corporate Governance Report

As at 31 December 2021, the Board's composition under major diversity perspectives was summarised as follows:

Board Diversity



EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company on their reporting responsibilities for the Group's consolidated financial statements for the year ended 31 December 2021 is set out in the section headed "Independent Auditor's Report" in this report.

The fees paid/payable to the Company's external auditor in respect of audit and non-audit services for the year ended 31 December 2021 are as follows:

| Nature of services | Amount (RMB'000) |
|--------------------------|---------------------|
| Audit services | 650 |
| Other assurance services | 0 |
| Non-assurance services | 184 |

Corporate Governance Report

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has adopted full disclosure of remuneration of Directors with disclosure by name, amount and type in note 11 to the financial statements.

The remuneration of the members of senior management by bands in 2021 is set out below:

| Remuneration bands | Number of individuals |
|---------------------|-----------------------|
| Nil – HK\$1,000,000 | 5 |

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results of operations and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2021, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Directors acknowledge their responsibility to prepare the consolidated financial statements as set out on pages 49 to 132 of this report. The statement of the external auditor about their reporting responsibilities on the consolidated financial statements is set out in the section headed "Independent Auditor's Report" on pages 43 to 48 of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the establishment and maintenance of an adequate and effective risk management and internal control system to safeguard the Group's assets against unauthorized use or disposition, and to protect the interests of shareholders of the Company. Internal audit function of the Company has been carried out under the leadership of the Board and the Audit Committee.

The risk management and internal control systems of the Group aim to minimize the risks rather than eliminate the risk of failure entirely. Furthermore, the risk management and internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has a risk management and internal control system in place which covers a number of in-house procedures and policies including, amongst others, financial, operational and compliance controls, handling and dissemination of inside information and risk management functions. The management, supported by operation units, are responsible for formulating, implementing and monitoring sound risk management and internal control systems in order to identify, evaluate and manage significant risk. They will report to the Board and the Audit Committee the results of their risk assessments, as well as the assessment on the effectiveness of risk management and internal control systems in order to resolve material internal control defects. Any material internal control defects identified are timely communicated and evaluated, and corrective measures will be implemented by management after discussion with the Board and external consultants (if necessary). Implementation will be closely monitored by management to ensure that the relevant internal control defects are properly resolved.

The Board, at least annually, reviews the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, and reviews the effectiveness of the risk management and internal control systems of the Group, including financial, operational and compliance controls. The review process comprises, amongst others, (i) regular meetings with management and operation units, legal personnel, internal audit personnel, auditors and external consultants (where appropriate); (ii) reviewing relevant reports and information of key performance indicators; and (iii) discussing the significant risks with the management of the Company.

The Group has adopted appropriate measures for handling and dissemination of inside information, including relevant control processes, to ensure that the confidentiality of inside information is maintained until the disclosure of such information is approved and its dissemination is made in accordance with the Listing Rules.

During the year ended 31 December 2021 and up to the date of this report, the Board, through the Audit Committee meetings which were held three times during the Year, conducted a review of the effectiveness of the internal control and risk management systems of the Group covering all material controls, including financial, operational and compliance as well as risk management. The Board considers the Group's risk management and internal control is adequate and effective.

COMPANY SECRETARY

During the year ended 31 December 2021, Ms. Lo Moon Fong, the company secretary of the Company, has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

COMMUNICATION WITH THE SHAREHOLDERS

Communication between the Company and its shareholders are achieved through various means including the convening of general meetings, the dispatch of annual reports, interim reports and circulars. The Chairman of the Board also proposes separate resolution for each substantive issue including re-election of Directors.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to Articles 58 of the Articles, an extraordinary general meeting ("EGM") may be convened by the Board on a written requisition of any one or more shareholders of the Company holding not less than 10% of the paid up capital of the Company carrying the right of voting at general meeting of the Company. The EGM shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) of the Company.

Putting forward proposals at shareholders' meetings

Shareholders who wish to put forward proposals at general meetings may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting of the Company.

Corporate Governance Report

Sending enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong at the following address for the attention of the company secretary:

Unit 902, 9/F., Capital Centre
151 Gloucester Road
Wan Chai, Hong Kong
Attention: Company Secretary

DIVIDEND POLICY

The Board has adopted the dividend policy (the “**Dividend Policy**”) which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed by the Board on a regular basis.

INVESTOR RELATIONS

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of interim and annual reports, the publishing and posting of notices, announcements and circulars on the website of each of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com) in a timely manner in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2021, the Company has not made any changes to its Articles.

Independent Auditor's Report



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

To the Shareholders of Nanfang Communication Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Nanfang Communication Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) set out on pages page 49 to page 132, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRS Standards**”) issued by the International Accounting Standards Board (“**IASB**”) 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 International Standards on Auditing (“**ISAs**”) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ 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 judgement, 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.

Independent Auditor's Report

Key audit matter

Impairment assessment of property, plant and equipment and right-of-use assets

We identified impairment assessment of the Group's property, plant and equipment and right-of-use assets with carrying amounts of RMB85.6 million and RMB29.5 million, respectively, as at 31 December 2021 as a key audit matter due to the significance of their carrying amounts on the Group's consolidated statement of financial position and the significant management judgement and estimation associated with the impairment assessment.

The management of the Group considers an impairment indicator exists for the Group's property, plant and equipment and right-of-use assets in respect of the manufacturing and sales of optical fibre cables and related devices since the Group incurred loss for the year ended 31 December 2021. The management conducted impairment assessment on the recoverable amount of the cash-generating unit to which these property, plant and equipment and right-of-use assets belong.

The recoverable amount of the aforesaid cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group with certain key assumptions, including estimated selling prices, sales volume and major material costs, and discount rate.

During the year ended 31 December 2021, no impairment losses in respect of property, plant and equipment and right-of-use assets were recognised. Details of the impairment assessment are set out in notes 4 and 14 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to the impairment assessment of the Group's property, plant and equipment and right-of-use assets included:

- Understanding the Group's impairment assessment process, including the impairment assessment model adopted and assumptions used;
- Evaluating the key assumptions used in the future cash flow projections, including estimated selling prices, sales volume and major material costs, and discount rate;
- Obtaining the present value of the estimated future cash flows for value in use calculation;
- Engaging our valuation specialist to evaluate the forecast prepared by the management and analyse the reasonableness of the discount rate adopted by the management; and
- Considering whether disclosures in the consolidated financial statements are adequate and appropriate.

Independent Auditor's Report

Key audit matter

Impairment assessment of trade receivables

We identified impairment assessment of the Group's trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period.

As at 31 December 2021, the Group's net trade receivables amounting to approximately RMB372.0 million, which represented approximately 27.4% of total assets of the Group.

As disclosed in note 34 to the consolidated financial statements, the management of the Group performs impairment assessment on individual debtor basis to estimate the amount of lifetime ECL of trade receivables based on internal credit ratings, ageing, repayment history and/or past due status of respective debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

As disclosed in note 34 to the consolidated financial statements, the Group recognised an additional amount of RMB2.7 million of impairment loss on trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2021 amounted to approximately RMB9.1 million.

How our audit addressed the key audit matter

Our procedures in relation to impairment assessment of the Group's trade receivables included:

- Understanding on how the management estimates the loss allowance for trade receivables;
- Testing the information used by management of the Group for impairment assessment, including trade receivables ageing analysis as at 31 December 2021, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents;
- Challenging management's basis and judgement in determining credit loss allowance on trade receivables of the Group as at 31 December 2021, including their identification of credit-impaired trade receivables, and the basis of estimated loss rates applied in each debtor in the impairment assessment (with reference to historical default rates and forward-looking information); and
- Evaluating the disclosures regarding the impairment assessment of the Group's trade receivables in notes 4, 20 and 34 to the consolidated financial statements.

Independent Auditor's Report

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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 ISAs 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.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

BDO Limited

Certified Public Accountants

Amy Yau Shuk Yuen

Practising Certificate no. P06095

30 March 2022, Hong Kong

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

| | Notes | Year ended 31 December | |
|--|-------|------------------------|-----------------|
| | | 2021 RMB'000 | 2020 RMB'000 |
| Revenue | 5 | 438,317 | 379,521 |
| Cost of sales | | (425,367) | (340,793) |
| Gross profit | | 12,950 | 38,728 |
| Other income, gains, expenses and losses, net | 7 | 23,000 | 17,996 |
| Impairment losses on trade and other receivables under expected credit loss model, net of reversal | 34 | (3,084) | (799) |
| Changes in fair value of financial assets at fair value through profit or loss ("FVTPL") | | 1,417 | – |
| Selling and distribution expenses | | (18,017) | (19,327) |
| Administrative expenses | | (53,425) | (39,439) |
| Research costs | | (28,960) | (22,820) |
| Finance costs | 8 | (8,610) | (4,993) |
| Share of profit of an associate | | 77 | 181 |
| Share of profit of a joint venture | | 4,579 | 5,538 |
| Loss before income tax | 10 | (70,073) | (24,935) |
| Income tax credit | 9 | 10,183 | 5,753 |
| Loss and total comprehensive expense for the year | | (59,890) | (19,182) |
| Loss per share | 12 | RMB(0.05) | RMB(0.02) |

Consolidated Statement of Financial Position

As at 31 December 2021

| | Notes | At 31 December | |
|---|-------|-----------------|-----------------|
| | | 2021 RMB'000 | 2020 RMB'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 85,565 | 97,167 |
| Right-of-use assets | 15 | 29,480 | 30,159 |
| Interest in an associate | 16 | 89,240 | 88,470 |
| Interest in a joint venture | 17 | 84,624 | 80,045 |
| Financial assets at FVTPL | 18 | 153,016 | 151,599 |
| Prepayments for acquiring property, plant and equipment | 21 | 52 | 701 |
| Restricted bank deposits and balances | 22 | 1,763 | 1,142 |
| Bank deposits with original maturity more than three months | 22 | – | 102,600 |
| Deferred tax assets | 29 | 25,414 | 11,836 |
| | | 469,154 | 563,719 |
| CURRENT ASSETS | | | |
| Inventories | 19 | 45,112 | 25,630 |
| Trade and bill receivables | 20 | 374,167 | 391,430 |
| Prepayments, deposits and other receivables | 21 | 34,048 | 14,838 |
| Tax recoverables | 9 | 2,944 | 2,944 |
| Restricted bank deposits and balances | 22 | 62,063 | 66,533 |
| Bank deposits with original maturity more than three months | 22 | 106,467 | – |
| Bank deposits, bank balances and cash | 22 | 265,639 | 207,249 |
| | | 890,440 | 708,624 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 24 | 207,063 | 215,877 |
| Other payables | 25 | 60,171 | 50,896 |
| Loan from a joint venture | 26 | 29,235 | 28,000 |
| Contract liabilities | 27 | 852 | 400 |
| Lease liabilities | 28 | 344 | 849 |
| Bank borrowings | 23 | 250,286 | 172,276 |
| Tax payables | 9 | 22,036 | 27,332 |
| | | 569,987 | 495,630 |
| NET CURRENT ASSETS | | 320,453 | 212,994 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 789,607 | 776,713 |

Consolidated Statement of Financial Position (Continued)

As at 31 December 2021

| | Notes | At 31 December | |
|--|-------|-----------------|-----------------|
| | | 2021 RMB'000 | 2020 RMB'000 |
| CAPITAL AND RESERVES | | | |
| Share capital | 31 | 1,291 | 997 |
| Reserves | | 765,817 | 754,852 |
| Equity attributable to owners of the Company | | 767,108 | 755,849 |
| Non-controlling interest | | - | 151 |
| | | 767,108 | 756,000 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 29 | 6,267 | 4,254 |
| Deferred income – government grants | 30 | 15,665 | 16,315 |
| Lease liabilities | 28 | 567 | 144 |
| | | 22,499 | 20,713 |
| | | 789,607 | 776,713 |

The financial statements on pages 49 to 132 were approved and authorised for issue by the Board of Directors on 30 March 2022 and are signed on its behalf by:

Shi Ming
Director

Yu Rumin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

| | Attributable to owners of the Company | | | | | | Non-controlling interest | Total |
|--|---------------------------------------|----------------|-----------------------|-----------------------|------------------|----------------|--------------------------|----------------|
| | Share capital | Share premium | Other reserve | Surplus reserve | Retained profits | Sub-total | | |
| | RMB'000 | RMB'000 | RMB'000 (Note (b)) | RMB'000 (Note (a)) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2020 | 997 | 214,255 | 113,295 | 66,782 | 418,902 | 814,231 | - | 814,231 |
| Loss and total comprehensive expense for the year | - | - | - | - | (19,182) | (19,182) | - | (19,182) |
| Appropriation for the year | - | - | - | 825 | (825) | - | - | - |
| Acquisition of a subsidiary | - | - | - | - | - | - | 151 | 151 |
| Dividend paid (Note 13) | - | - | - | - | (39,200) | (39,200) | - | (39,200) |
| At 31 December 2020 and 1 January 2021 | 997 | 214,255 | 113,295 | 67,607 | 359,695 | 755,849 | 151 | 756,000 |
| Loss and total comprehensive expense for the year | - | - | - | - | (59,890) | (59,890) | - | (59,890) |
| Appropriation for the year | - | - | - | 1,321 | (1,321) | - | - | - |
| Equity-settled share-based payment (Note 31(a)) | 93 | 46,392 | - | - | - | 46,485 | - | 46,485 |
| Shares issued upon placement (Note 31(b)) | 201 | 24,312 | - | - | - | 24,513 | - | 24,513 |
| Relating to purchase of non-controlling interest in a subsidiary | - | - | - | - | 151 | 151 | (151) | - |
| At 31 December 2021 | 1,291 | 284,959 | 113,295 | 68,928 | 298,635 | 767,108 | - | 767,108 |

Notes:

- (a) As stipulated by the relevant laws and regulations, the Company's subsidiaries in The People's Republic of China (the "PRC") are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax of the financial statements of each subsidiary while the amounts and allocation basis are decided by its board of directors annually, until the reserve balance reaches 50% of its registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these subsidiaries, provided that such fund is maintained at a minimum of 25% of their registered capital.
- (b) Pursuant to deeds dated 29 September 2016, shareholders of the Company's ultimate holding company agreed to waive and release all repayment obligations in respect of the amounts of United States Dollars ("US\$") 500,000 and Hong Kong Dollars ("HK\$") 128,200,000 (equivalent to Renminbi ("RMB") 113,295,000 in aggregate) advanced by them to Century Planet Limited ("Century Planet"), the Company's direct wholly owned subsidiary, for paying up the registered capital of its indirect wholly owned subsidiary, MacroSmart Investment Limited ("MacroSmart").

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| OPERATING ACTIVITIES | | |
| Loss before income tax | (70,073) | (24,935) |
| Adjustment for: | | |
| Adjustment from lease termination | (18) | – |
| Interest income | (8,155) | (9,594) |
| Depreciation of property, plant and equipment | 3,396 | 3,233 |
| Depreciation of right-of-use assets | 1,219 | 1,432 |
| Equity-settled share-based payments | 14,934 | – |
| Loss on disposal of property, plant and equipment | – | 1 |
| Gain on changes in fair value of financial assets of FVTPL | (1,417) | – |
| Government grants recognised | (650) | (423) |
| Write-down of inventories | 752 | – |
| Foreign exchange (gains) losses, net | (5,668) | 190 |
| Impairment losses on trade and other receivables under expected credit loss model, net of reversal | 3,084 | 799 |
| Finance costs | 8,610 | 4,993 |
| Share of profit of an associate | (77) | (181) |
| Share of profit of a joint venture | (4,579) | (5,538) |
| Operating cash flows before movements in working capital | (58,642) | (30,023) |
| (Increase) decrease in inventories | (9,822) | 30,495 |
| (Increase) decrease in trade, bills and other receivables, deposits and prepayments | (2,128) | 10,752 |
| Decrease in trade, bills and other payables | (7,972) | (80,197) |
| Increase in contract liabilities | 452 | 12 |
| Cash used in operations | (78,112) | (68,961) |
| Income tax paid | (6,678) | (13,658) |
| Net cash used in from operating activities | (84,790) | (82,619) |

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2021

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment and right-of-use assets | (2,059) | (13,814) |
| Proceeds from disposal of property, plant and equipment | - | 4 |
| Cash outflow from acquisition of a subsidiary | - | (151,448) |
| Dividend received from an associate | - | 14,700 |
| Dividend received from a joint venture | - | 7,869 |
| Withdrawal of bank deposits with original maturity more than three months | 106,467 | 44,680 |
| Placement of restricted bank deposits and balances | (67,523) | (67,675) |
| Withdrawal of restricted bank deposits and balances | 67,505 | 67,200 |
| Interest received | 5,289 | 4,422 |
| Government grants received | - | 1,153 |
| Repayment from Pacific Smart Development Limited ("Pacific Smart") | - | 19,249 |
| Settlement of loans receivable | - | 194,000 |
| Loans advanced | - | (194,000) |
| Net cash generated from (used in) investing activities | 109,679 | (73,660) |
| FINANCING ACTIVITIES | | |
| Proceeds from bank borrowings | 230,000 | 202,056 |
| Repayment of bank borrowings | (146,902) | (140,000) |
| Loan from a joint venture | - | 28,000 |
| Repayments to the ultimate holding company | (5,000) | (238) |
| Advance from a director | 15,740 | - |
| Payments of interest expense on bank borrowings | (8,587) | (4,950) |
| Dividend paid | - | (39,200) |
| Interest paid on lease liabilities | (23) | (43) |
| Payments of lease liabilities | (604) | (824) |
| Proceeds from issuance of share upon exercise of share options | 31,551 | - |
| Proceeds from issuance of share upon placement, net of transaction costs | 24,513 | - |
| Net cash generated from financing activities | 140,688 | 44,801 |
| Net increase (decrease) in cash and cash equivalents | 165,577 | (111,478) |
| Cash and cash equivalents at beginning of the year | 207,249 | 318,697 |
| Effect of exchange rate changes on the balances of cash held in foreign currencies | (720) | 30 |
| Cash and cash equivalents at end of the year | 372,106 | 207,249 |
| Represented by: | | |
| Bank deposits, bank balances and cash | 265,639 | 207,249 |
| Bank deposits with original maturity more than three months | 106,467 | - |
| | 372,106 | 207,249 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 10 May 2016. The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is 1 Cencun Road, Luoyang Town, Wujin District, Changzhou City, Jiangsu Province, the People's Republic of China (the "PRC"). The Company is an investment holding company and, through its operating subsidiaries, is principally engaged in the manufacturing and sales of optical fibre cables and optical distribution network devices, as well as processing and sales of prepainted steel sheet.

The Company's immediate and ultimate holding company is Pacific Mind Development Limited, a company incorporated in the British Virgin Islands.

The consolidated financial statements of the Group are presented in Renminbi ("RMB"). In the opinion of the Directors, the functional currency of companies comprising the Group is RMB.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

| | |
|--|--|
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 |
| Amendment to IFRS 16 | Covid-19-Related Rent Concessions |

None of these amended IFRSs has a material impact on the Group's results and financial position for the current or prior period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and amendments to IFRSs in issue but not yet effective

The following new or amended IFRSs, potentially relevant to the Group’s consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

| | |
|---|---|
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴ |
| Amendments to IAS 16 | Proceeds before Intended Use ² |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract ² |
| IFRS 17 | Insurance Contracts and the related Amendments ⁴ |
| Amendments to IFRS 3 | Reference to the Conceptual Framework ³ |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵ |
| Annual Improvements to IFRSs 2018–2020 | Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture ² |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies ⁴ |
| Amendments to IAS 8 | Definition of Accounting Estimates ⁴ |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction ⁴ |
| Amendment to IFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021 ¹ |

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 business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

⁴ Effective for annual periods beginning on or after 1 January 2023.

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and amendments to IFRSs in issue but not yet effective (continued)

Amendments to IAS 1, Classification of Liabilities as Current or Non-current, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to IAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to IAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and amendments to IFRSs in issue but not yet effective (continued)

IFRS 17, Insurance Contracts

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4, Insurance Contracts. The standard outlines a ‘General Model’, which is modified for insurance contracts with direct participation features, described as the ‘Variable Fee Approach’. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to IFRS 3, Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC-Int 21 Levies, the acquirer applies IFRIC-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and amendments to IFRSs in issue but not yet effective (continued)

Annual Improvements to IFRSs 2018–2020

The annual improvements amends a number of standards, including:

- IFRS 1, First-time Adoption of International Financial Reporting Standards, which provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).
- IFRS 9, Financial Instruments, which clarify the fees included in the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on the other’s behalf are included.
- IFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- IAS 41, Agriculture, which removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement. The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have a significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and amendments to IFRSs in issue but not yet effective (continued)

Amendments to IAS 1, Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements–Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have a significant impact on the consolidated financial statements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The definition of a change in accounting estimates was deleted. However, the concept of changes in accounting estimates in the Standard was retained with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have a significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and amendments to IFRSs in issue but not yet effective (continued)

Amendments to IAS 12 Income Taxes–Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. An entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have a significant impact on the consolidated financial statements.

Amendments to IFRS 16–Covid-19-Related Rent Concessions beyond 30 June 2021

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRS Standards issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (“**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (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 financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Investments in an associate and a joint venture

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 over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Investments in an associate and a joint venture (continued)

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) 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 in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of IFRS 9 *Financial Instruments* (“**IFRS 9**”), the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group’s consolidated financial statements only to the extent of interest in the associate or joint venture that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at 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.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below). 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.

Construction in progress, which represents assets under construction for production, supply or administrative purposes, is carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Impairment 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.

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established.

The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. 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 amount 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of 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 interests in an associate and a joint venture, 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 the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Taxation (continued)

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 rates (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.

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 IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

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 to the same taxable entity by the same taxation authority.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Equity-settled share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged or credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share premium for the shares issued) or the option expires (when it is released directly to retained profits).

If the share options granted are cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the cancellation or settlement is accounted for as an acceleration of vesting, and the amount that otherwise would have been recognised for services received over the remaining vesting period is recognised immediately in profit or loss.

Leases

Definition of a lease

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of building that have a lease term of 12 months or less from the commencement date. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

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

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

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease terms.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivables, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of raw materials are determined based on a "first-in-first-out" basis and costs of work-in-progress and finished goods are determined on a weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Employee benefits

Retirement benefit costs

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government. The Group's contributions to the defined contribution retirement schemes are recognised as an expense when employees have rendered service entitling them to the contributions as incurred.

Besides, the Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its eligible employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries/relevant income and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer mandatory contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are proportionately refunded to the Group upon the employee's termination of services in accordance with the vesting scales of the MPF Scheme. Contributions to the plan vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

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. Such grants are presented under "other income, gains, expenses and losses, net".

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at 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 at FVTPL are recognised immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

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

- 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.

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

Amortised cost and interest income

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 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 fair value through other comprehensive income (“**FVTOCI**”) or designated as FVTOCI are measured at FVTPL.

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. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “change in fair value of financial assets at FVTPL” line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“**ECL**”) model on financial assets (including trade, bills and other receivables, bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances), which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade and bills receivables. The ECL on these assets is individually assessed.

For all other instruments (including other receivables, bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances), the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

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

Irrespective of the above, 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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default 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:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, 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 effective interest rate determined at initial recognition.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade, bills and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

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 entity.

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 the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade, bills and other payables, advance from ultimate holding company, loan from a joint venture, and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

Revenue from sales of optical fibre cables, optical distribution network devices, prepainted steel sheet and other materials are recognised when the control of goods is transferred, being they have been shipped to the customer’s specific location based on the quantity of optical fibre cables, optical distribution network devices, prepainted steel sheet and other materials received by the customers. A receivable is recognised by the Group when the goods are delivered to the customer’s specific location and received by the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers. No provision for returns of optical fibre cables, optical distribution network devices, prepainted steel sheet and other materials are set out in the relevant sales agreements, unless they could be replaced if there are quality problems found.

Revenue from the sale of electricity is recognised based on the meter reading of watts of electricity transmitted at tariff rate agreed in the relevant contracts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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

3.2 Significant accounting policies (continued)

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.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. 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 has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment assessment of property, plant and equipment and right-of-use assets

Property, plant and equipment 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 amount; (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 estimated selling prices, sales volume and major material costs used in the cash flow projection and 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 belong. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, impairment loss may arise.

As at 31 December 2021, the Group had property, plant and equipment and right-of-use assets with carrying amounts amounting to RMB85,565,000 (2020: RMB97,167,000) (note 14) and RMB29,480,000 (2020: RMB30,159,000) (note 15), respectively, which are belonged to a cash-generating unit of the Group for the manufacturing and sales of optical fibre cables and related devices.

During the years ended 31 December 2021 and 2020, no impairment loss has been recognised in profit or loss in respect of the property, plant and equipment and right-of-use assets.

Estimated impairment of trade, bills and other receivables

The management of the Group performs impairment assessment on individual debtor basis to estimate the amount of ECL of trade, bills and other receivables based on internal credit ratings, ageing, repayment history and/or past due status of respective debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. At every reporting date, the internal credit rating and historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 34.

As at 31 December 2021, the Group's net carrying amount of trade receivable was RMB371,958,000 (net of allowance for credit losses of RMB9,111,000) (2020: RMB364,412,000 (net of allowance for credit losses of RMB6,446,000)).

As at 31 December 2021, the Group's carrying amount of bills receivable was RMB2,209,000 (2020: RMB27,018,000). The ECL for the Group's bills receivable was insignificant.

As at 31 December 2021, the Group's net carrying amount of other receivables was RMB15,668,000 (net of allowance for credit losses of RMB1,038,000) (2020: RMB7,107,000 (net of allowance for credit losses of RMB619,000)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Useful lives of property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses in the consolidated statement of financial position. The estimation of their useful lives is the key element for the annual depreciation expense. Management estimates useful lives of property, plant and equipment (other than construction in progress) based on their experience and historical production statistics. Should the useful lives of the Group's property, plant and equipment (other than construction in progress) be deviated from the estimation, higher/lower depreciation expense would lead to a decrease/increase the Group's profit respectively.

As at 31 December 2021, the Group's carrying amount of property, plant and equipment is RMB85,565,000 (2020: RMB97,167,000).

Recognition of deferred tax assets

As at 31 December 2021, deferred tax assets of RMB25,414,000 (2020: RMB11,836,000) was recognised in the consolidated statement of financial position. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the periods in which such a reversal takes place. In cases where the actual future profits generated are higher than expected, the deferred tax assets will be adjusted and recognised in the consolidated statement of profit or loss and other comprehensive income in the periods in which such a situation takes place.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

The Group's revenue represents amounts received and receivable from the sale of optical fibre cables, optical distribution network devices and prepainted steel sheet, net of discounts, customers' returns and sales related tax, that are recognised at a point in time as follows:

| | Year ended 31 December | |
|--------------------------------------|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Optical fibre cables | 345,470 | 375,757 |
| Optical distribution network devices | 11,284 | 3,764 |
| Prepainted steel sheet | 81,563 | — |
| | 438,317 | 379,521 |

Sales of the Group's optical fibre cables, optical distribution network devices and prepainted steel sheet are principally made to customers located in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

5. REVENUE (CONTINUED)

(ii) Performance obligations for contracts with customers

The Group sells optical fibre cables and optical distribution network devices to the three state-owned telecommunication network operators in the PRC (the “**Major PRC Telecommunications Network Operators**”) and other companies according to the relevant sales agreements. Revenue is recognised when control of optical fibre cables and optical distribution network devices has been transferred, being when they have been delivered to the customers’ specific locations based on the quantity of optical fibre cables and optical distribution network devices received by the customers. A receivable is recognised by the Group as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. No provision for returns of optical fibre cables and optical distribution network devices is set out in the relevant sales agreements, unless they could be replaced if quality problems are found. The customers have neither rights of return nor rights to defer or avoid payment for the goods once the goods are received by the customers. The Group usually issues invoices in six months after completion of delivery of goods. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% – 90% of invoiced amounts is receivable upon issue of invoices. The Group allows credit period within six months to the Major PRC Telecommunication Network Operators for the receipt of the remaining balances. In addition, the Group granted credit periods of not more than one year after completion of delivery of goods to other customers with good repayment history. The Group does not obtain collateral from customers.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All performance obligations in relation to sale of optical fibre cables and optical distribution network devices are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. SEGMENT INFORMATION

Information reported to the chief executive officer of the Company (also general manager of the Group), being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses on revenue from the sales of optical fibre cables, optical distribution network devices and prepainted steel sheet.

The Group is principally engaged in the manufacturing and sales of optical fibre cables and optical distribution network device and is also engaged in processing and sales of prepainted steel sheet for which a new segment was created during the year, the chief operating decision maker assesses performance of the business based on a measure of operating results and consider the business from the product perspective. Information reported to the chief operating decision maker for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group’s resources are integrated. Accordingly, the Group has identified two operating segments as follows:

- Manufacturing and sales of optical fibre cables and optical distribution network devices
- Processing and sales of prepainted steel sheet

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6. SEGMENT INFORMATION (CONTINUED)

The Group reportable segments are managed separately as each business offers different products and services and requires different business strategies. The chief operating decision maker assesses the performance of the operating segments mainly based on segment revenue and gross profit (loss) of each operating segment. Selling and distribution expenses, administrative expenses and research costs are not included in the measure of the segments' performance which is used by chief operating decision maker as a basis for the purpose of resource allocation and assessment of segment performance. Changes in fair value of financial assets of FVTPL, impairment losses on trade and other receivables under expected credit loss model, net of reversal, share of profit of an associate and a joint venture, other income, gains, expenses and losses, net, finance costs and income tax credit are also not allocated to individual operating segments. The following summary describes the operations in each of the Group's reportable segments:

| | Year ended 31 December 2021 | | |
|---------------------|---|---|------------------|
| | Manufacturing and sales of optical fibre cables and optical distribution network devices RMB'000 | Processing and sales of pre-painted steel sheet RMB'000 | Group RMB'000 |
| Segment revenue | 356,754 | 81,563 | 438,317 |
| Gross profit (loss) | 18,628 | (5,678) | 12,950 |
| | Year ended 31 December 2020 | | |
| | Manufacturing and sales of optical fibre cables and optical distribution network devices RMB'000 | Processing and sales of pre-painted steel sheet RMB'000 | Group RMB'000 |
| Segment revenue | 379,521 | – | 379,521 |
| Gross profit | 38,728 | – | 38,728 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's operation is principally in the PRC and all its non-current assets (other than financial assets and deferred tax assets) are situated in the PRC.

Major customers

Revenue from customers of the corresponding years contributing over 10% of total revenue of the Group are as follows:

| | Year ended 31 December | |
|-------------|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Customer A* | 124,886 | 147,336 |
| Customer B* | 214,434 | 212,624 |

* Revenue from sales of optical fibre cables.

7. OTHER INCOME, GAINS, EXPENSES AND LOSSES, NET

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Bank interest income | 8,155 | 7,684 |
| Other interest income | – | 1,910 |
| Foreign exchange gains(losses), net | 5,591 | (725) |
| Sale of electricity and gain on sales of other materials | 5,333 | 3,176 |
| Government grants recognised (Note) | 3,937 | 5,489 |
| Loss on disposal of property, plant and equipment | – | (1) |
| Others | (16) | 463 |
| Other income, gains, expenses and losses, net | 23,000 | 17,996 |

Note: During the current year, the government grants mainly included subsidies in relation to various taxes paid and research and other expenses incurred in prior years. In addition, no government grants was recognised by the Group in respect of Covid-19-related subsidy relating to Employment Support Scheme provided by the Hong Kong government(2020: approximately RMB188,000).

The government grants recognised included the release of deferred income of approximately RMB650,000 (2020: approximately RMB423,000) during the year (Note 30).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

8. FINANCE COSTS

| | Year ended 31 December | |
|-------------------------------|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Interest on bank borrowings | 8,587 | 4,950 |
| Interest on lease liabilities | 23 | 43 |
| Finance costs | <u>8,610</u> | <u>4,993</u> |

9. INCOME TAX CREDIT

| | Year ended 31 December | |
|-----------------------------------|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| PRC Enterprise Income Tax ("EIT") | (1,382) | (3,745) |
| Withholding tax | – | (2,944) |
| Deferred tax (Note 29) | 11,565 | 12,442 |
| Income tax credit | <u>10,183</u> | <u>5,753</u> |

No provision for income taxes of the Company and its certain subsidiaries was made as they did not earn assessable income during the year (2020: nil).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, Jiangsu Nanfang Communication Technology Company Limited ("Nanfang Communication") and Jiangsu Yingke Communication Technology Company Limited ("Yingke"), subsidiaries of the Company, are recognised as "High and New Technology Enterprise" for a three-year-period starting from 7 November 2019. Accordingly, Nanfang Communication and Yingke are entitled to a reduced EIT rate of 15% for the year (2020: 15%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

9. INCOME TAX CREDIT (CONTINUED)

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

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Loss before income tax | (70,073) | (24,935) |
| Tax at applicable tax rate at 15% in the PRC (Note (a)) | (10,511) | (3,740) |
| Provision (reversal of provision) for withholding tax on distributable profits | 2,014 | (1,751) |
| Tax effect of expenses not deductible for tax purpose | 3,001 | 2,694 |
| Additional tax benefit applicable to the Group (Note (b)) | (3,064) | (2,567) |
| Effect of share of results of an associate | (115) | (27) |
| Effect of share of results of a joint venture | (688) | (831) |
| Effect of different EIT rate applicable to a subsidiary | (716) | 675 |
| Effect of change in unrealised profit/loss attributable to purchases from an associate | (104) | (206) |
| Income tax credit | (10,183) | (5,753) |

Notes:

- (a) For the year ended 31 December 2021, the PRC EIT rate of 15% (2020: 15%) is applicable to Nanfang Communication and Yingke that account for substantial operation of the Group.
- (b) Pursuant to the relevant tax rules and regulations, expenses in research nature are entitled to additional tax deduction at 75% (2020: 75%) of the cost incurred.

Tax recoverables (tax payables) in the consolidated statement of financial position represents:

| | At 31 December | |
|------------------------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| At beginning of the year | (24,388) | (31,357) |
| EIT and withholding tax paid | 6,678 | 13,658 |
| EIT for the year | (1,382) | (3,745) |
| Withholding tax for the year | - | (2,944) |
| At the end of the year | (19,092) | (24,388) |
| Represented by: | | |
| Tax recoverables | 2,944 | 2,944 |
| Tax payables | (22,036) | (27,332) |
| | (19,092) | (24,388) |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

10. LOSS BEFORE INCOME TAX

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Cost of inventories recognised as cost of sales | <u>425,367</u> | <u>340,793</u> |
| Loss before income tax has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | 14,501 | 15,709 |
| Less: depreciation capitalised in inventories | <u>(11,105)</u> | <u>(12,476)</u> |
| Depreciation recognised as cost of sales | <u>3,396</u> | <u>3,233</u> |
| Depreciation of right-of-use assets | 1,219 | 1,432 |
| Auditor's remuneration | 650 | 800 |
| Staff costs (including the directors' remuneration as disclosed in note 11 below): | | |
| – Salaries, wages and allowances | 32,379 | 35,733 |
| – Retirement benefit scheme contributions | 3,191 | 1,691 |
| – Equity-settled share-based payment expenses | <u>14,934</u> | <u>–</u> |
| Total staff costs | <u>50,504</u> | <u>37,424</u> |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

11. DIRECTOR'S AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

(a) Directors

Details of the emoluments paid to the directors of the Company during the year are as follows:

| | Other emoluments | | | | Total RMB'000 |
|--|------------------|---|---|---|------------------|
| | Fees RMB'000 | Salaries wages, and allowances RMB'000 | Discretionary bonuses RMB'000 (Note) | Retirement benefit scheme contributions RMB'000 | |
| Year ended 31 December 2021 | | | | | |
| <i>Executive directors</i> | | | | | |
| Mr. Shi Ming | 180 | 1,693 | - | 406 | 2,279 |
| Ms. Yu Rumin | 300 | 300 | - | 15 | 615 |
| Ms. Yu Ruping | - | 596 | - | 156 | 752 |
| <i>Non-executive director</i> | | | | | |
| Mr. Yu Jinlai | - | 253 | - | - | 253 |
| <i>Independent non-executive directors</i> | | | | | |
| Mr. Wu Wing Kuen | 180 | - | - | - | 180 |
| Mr. Lam Chi Keung | 160 | - | - | - | 160 |
| Mr. Chan Kai Wing | 160 | - | - | - | 160 |
| | 980 | 2,842 | - | 577 | 4,399 |

Notes to the Consolidated Financial Statements

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11. DIRECTOR'S AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors (continued)

Details of the emoluments paid to the directors of the Company during the year are as follows:

| | Fees RMB'000 | Other emoluments | | | Total RMB'000 |
|--|-----------------|---|--|---|------------------|
| | | Salaries wages, and allowances RMB'000 | Discretionary bonuses RMB'000 <i>(Note)</i> | Retirement benefit scheme contributions RMB'000 | |
| Year ended 31 December 2020 | | | | | |
| <i>Executive directors</i> | | | | | |
| Mr. Shi Ming | 180 | 1,926 | – | 150 | 2,256 |
| Ms. Yu Rumin | 300 | 300 | – | 15 | 615 |
| Ms. Yu Ruping | – | 596 | – | 49 | 645 |
| <i>Non-executive director</i> | | | | | |
| Mr. Yu Jinlai | – | 253 | – | – | 253 |
| <i>Independent non-executive directors</i> | | | | | |
| Mr. Wu Wing Kuen | 190 | – | – | – | 190 |
| Mr. Lam Chi Keung | 169 | – | – | – | 169 |
| Mr. Chan Kai Wing | 169 | – | – | – | 169 |
| | <u>1,008</u> | <u>3,075</u> | <u>–</u> | <u>214</u> | <u>4,297</u> |

Note: The discretionary bonuses are determined by reference to the individual performance of the executive directors of the Company and approved by the Remuneration Committee (composed of an executive director and two independent non-executive directors of the Company).

The executive directors' emoluments of the Company shown above were for their services in connection with the management of the affairs of the Company and the Group. The emoluments of the non-executive director and independent non-executive directors shown above were for their services as directors of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

11. DIRECTOR'S AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees

Of the five individuals with the highest emoluments in the Group for the year ended 31 December 2021, 3 individuals (2020: 3 individuals) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining 2 individuals (2020: 2 individuals) for the year ended 31 December 2021 and 2020 were as follows:

| | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Salaries, wages and allowances | 773 | 602 |
| Discretionary bonuses (<i>Note</i>) | – | 133 |
| Retirement benefit scheme contributions | 113 | 31 |
| | 886 | 766 |

Note: The discretionary bonuses are determined with reference to the individual performance of the employee.

| | Year ended 31 December Number of employees | |
|-------------------------|---|------|
| | 2021 | 2020 |
| Less than HK\$1,000,000 | 2 | 2 |

Mr. Shi Ming is the chief executive officer of the Company and the general manager of the Group during the year whose emoluments have been included in Note 11(a).

No emoluments were paid by the Group to any of the directors of the Company or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and none of the directors of the Company waived any emoluments for both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

12. LOSS PER SHARE

| | Year ended 31 December | |
|---|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Loss | | |
| Loss for the purpose of basic earnings per share (Loss for the year attributable to owners of the Company) | (59,890) | (19,182) |

| | Year ended 31 December | |
|---|------------------------|--------------|
| | 2021 '000 | 2020 '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 1,195,424 | 1,120,000 |

No diluted earnings per share is presented as there is no potential ordinary shares outstanding for both years.

13. DIVIDENDS

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Dividends recognised as distribution during the year: | | |
| 2019 Final, paid – HK\$0.03828 (equivalent to RMB0.035) per ordinary share | – | 39,200 |

The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2021 (2020: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Plant, machinery and equipment RMB'000 | Leasehold improvements RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---------------------------|----------------------|---|--------------------------------------|------------------------------|--|------------------|
| Cost | | | | | | |
| At 1 January 2020 | 62,991 | 112,115 | 15,768 | 9,563 | 749 | 201,186 |
| Additions | - | 4,142 | - | - | 744 | 4,886 |
| Write-off | - | - | - | (106) | - | (106) |
| Transfer | - | 596 | - | - | (596) | - |
| At 31 December 2020 | 62,991 | 116,853 | 15,768 | 9,457 | 897 | 205,966 |
| Additions | - | 1,687 | - | 631 | 581 | 2,899 |
| At 31 December 2021 | 62,991 | 118,540 | 15,768 | 10,088 | 1,478 | 208,865 |
| Accumulated depreciation | | | | | | |
| At 1 January 2020 | 16,317 | 66,684 | 2,875 | 7,315 | - | 93,191 |
| Provided for the year | 2,567 | 11,518 | 922 | 702 | - | 15,709 |
| Eliminated upon write-off | - | - | - | (101) | - | (101) |
| At 31 December 2020 | 18,884 | 78,202 | 3,797 | 7,916 | - | 108,799 |
| Provided for the year | 2,564 | 10,342 | 928 | 667 | - | 14,501 |
| At 31 December 2021 | 21,448 | 88,544 | 4,725 | 8,583 | - | 123,300 |
| Carrying amount | | | | | | |
| At 31 December 2021 | 41,543 | 29,996 | 11,043 | 1,505 | 1,478 | 85,565 |
| At 31 December 2020 | 44,107 | 38,651 | 11,971 | 1,541 | 897 | 97,167 |

Notes to the Consolidated Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis based on their estimated useful lives, after taking into account the estimated residual value, as follows:

| | |
|--------------------------------|-------------|
| Buildings | 20–30 years |
| Plant, machinery and equipment | 3–10 years |
| Leasehold improvements | 5–10 years |
| Motor vehicles | 4–5 years |

The Group's properties are located in the PRC.

Impairment assessment

In view of the operating loss and operating cash outflow of the Group's business, the management of the Group concluded that there was indication for impairment and conducted impairment assessment on the Group's property, plant and equipment and rights-of-use assets with carrying amount of RMB85,565,000 and RMB29,480,000, respectively, to determine their recoverable amounts. The Group estimates the recoverable amount of the cash-generating unit to which these property, plant and equipment and right-of-use assets belong.

The recoverable amount of the aforesaid cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering the following 5 years with a pre-tax discount rate of 19.1%. The annual growth rate after the 5-year period used is 2.0%. Other key assumptions for the value in use calculation include estimated selling prices, sales volume and major material costs, which are forecasted based on the Group's past performance and management expectations for the market development plan.

During the year 31 December 2021 and 2020, no impairment loss in respect of property, plant and equipment and rights-of-use assets was recognised as the recoverable amount of the cash-generating unit is higher than its carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

15. RIGHT-OF-USE ASSETS

| | Leasehold land RMB'000 | Leased office premise RMB'000 | Total RMB'000 |
|---------------------------------------|--------------------------------------|---|-------------------------|
| Cost | | | |
| As at 1 January 2020 | 30,008 | 2,485 | 32,493 |
| Additions | 1,537 | – | 1,537 |
| At 31 December 2020 | 31,545 | 2,485 | 34,030 |
| Additions | – | 1,023 | 1,023 |
| Adjustment from lease termination | – | (2,484) | (2,484) |
| At 31 December 2021 | 31,545 | 1,024 | 32,569 |
| Accumulated depreciation | | | |
| As at 1 January 2020 | 1,749 | 690 | 2,439 |
| Depreciation | 603 | 829 | 1,432 |
| At 31 December 2020 | 2,352 | 1,519 | 3,871 |
| Depreciation | 620 | 599 | 1,219 |
| Adjustment from lease termination | – | (2,001) | (2,001) |
| At 31 December 2021 | 2,972 | 117 | 3,089 |
| Carrying amount | | | |
| At 31 December 2021 | 28,573 | 907 | 29,480 |
| At 31 December 2020 | 29,193 | 966 | 30,159 |
| For the year ended 31 December | | | |
| | 2021 | 2020 | |
| | RMB'000 | RMB'000 | |
| Expense relating to short-term leases | 389 | 322 | |
| Total cash outflow for leases | 1,016 | 2,683 | |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

15. RIGHT-OF-USE ASSETS (CONTINUED)

The above items of right-of-use assets are depreciated on a straight-line basis based over the shorter of their estimated useful lives and the lease terms as follows:

| | |
|-----------------------|---|
| Leasehold land | shorter of estimated useful lives or lease term of 50 years |
| Leased office premise | shorter of estimated useful life or lease term of 3 years |

The Group's right-of-use assets in respect of the leasehold land are in the PRC under medium term lease and are used by the Group where its production plant is built.

Impairment assessment

For the purpose of impairment assessment, the above right-of-use assets have been allocated to cash-generating unit of the Group's business. Details of the impairment assessment are set out in note 14.

16. INTEREST IN AN ASSOCIATE

| | At 31 December | |
|---|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Cost of investment in an associate, unlisted | 73,500 | 73,500 |
| Share of post-acquisition profit of an associate, net of dividends received | 15,740 | 14,970 |
| Interest in an associate | 89,240 | 88,470 |

The details of the Group's interest in an associate are as follows:

| Name of the entity | Place of establishment and operation | Form of business structures | Proportion of equity interests and voting right held by the Group at 31 December | | Principal activities |
|--|--------------------------------------|-----------------------------|--|-----------|--|
| | | | 2021 % | 2020 % | |
| 江蘇南方光纖科技有限公司 (transliterated as Jiangsu Nanfang Optic Electric Technology Company Limited) | The PRC | Incorporated | 49% | 49% | Manufacturing and sales of optical fibre |

The above associate is accounted for using the equity method in consolidated financial statements as set out in the Group's accounting policies in note 3.2.

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16. INTEREST IN AN ASSOCIATE (CONTINUED)

The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

| | At 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Current assets | 121,654 | 103,438 |
| Non-current assets | 101,960 | 115,090 |
| Current liabilities | (38,221) | (33,894) |
| Non-current liabilities | (3,271) | (4,082) |
| Net assets | 182,122 | 180,552 |
| Proportion of the Group's ownership interest therein | 49% | 49% |
| Group's share of net assets of an associate | 89,240 | 88,470 |
| | Year ended 31 December | |
| | 2021 RMB'000 | 2020 RMB'000 |
| Revenue | 164,500 | 140,860 |
| Profit and total comprehensive income for the year | 1,570 | 3,175 |
| Group's share of profit of an associate | 770 | 1,556 |
| Adjustment for unrealised profit for the purchase of optical fibre from an associate which remains unsold at the end of reporting period | (693) | (1,375) |
| Group's share of profit of an associate presented on the consolidated statement of profit or loss and other comprehensive income | 77 | 181 |
| Dividends received from an associate | - | 14,700 |

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17. INTEREST IN A JOINT VENTURE

| | At 31 December | |
|---|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Cost of unlisted investment in a joint venture | 76,500 | 76,500 |
| Share of post-acquisition profit of a joint venture | 8,124 | 3,545 |
| Interest in a joint venture | 84,624 | 80,045 |

The details of the Group's interest in a joint venture are as follows:

| Name of the entity | Place of establishment and operation | Fully paid registered capital | Attributable equity interest of the Group at 31 December | | Principal activities |
|---|--------------------------------------|-------------------------------|--|-----------|---|
| | | | 2021 % | 2020 % | |
| 江蘇盈科光導科技有限公司 (transliterated as Jiangsu Yingke Optical Material Technology Company Limited) | The PRC | RMB150,000,000 | 51% | 51% | Manufacturing and sales of optical fibre preforms |

The above joint venture is accounted for using the equity method in consolidated financial statements as set out in the Group's accounting policies in note 3.2.

The joint venture's financial and operating decisions require unanimous consents of both the Group and the joint venture partner.

The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRS Standards.

| | At 31 December | |
|--|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Current assets | 140,704 | 243,125 |
| Non-current assets | 34,360 | 55,926 |
| Current liabilities | (9,135) | (142,101) |
| Net assets | 165,929 | 156,950 |
| Proportion of the Group's ownership interest therein | 51% | 51% |
| Group's share of net assets of a joint venture | 84,624 | 80,045 |

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17. INTEREST IN A JOINT VENTURE (CONTINUED)

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Revenue | <u>91,802</u> | <u>271,105</u> |
| Profit and total comprehensive income for the year | <u>8,979</u> | <u>10,859</u> |
| Group's share of profit of a joint venture | <u>4,579</u> | <u>5,538</u> |
| Dividend received from a joint venture | <u>-</u> | <u>7,869</u> |
| The above profit and total comprehensive income for the year includes the following: | | |
| Depreciation and amortisation | <u>(21,566)</u> | <u>(22,297)</u> |
| Interest income | <u>2,587</u> | <u>1,127</u> |
| Income tax expense | <u>(3,084)</u> | <u>(3,533)</u> |

18. FINANCIAL ASSETS AT FVTPL

On 18 September 2020, Century Planet, Gold Image Limited (“**Gold Image**”) and the sole shareholder of Gold Image (the “**Sole Shareholder**”) entered into a subscription agreement (“**Subscription Agreement**”), pursuant to which (i) Century Planet conditionally agreed to subscribe for, and Gold Image conditionally agreed to allot and issue 9,999 subscription shares (“**Subscription Shares**”) at a consideration of US\$9,999, representing 99.99% of the total issued share capital of Gold Image as enlarged by the issue of the Subscription Shares; (ii) the Sole Shareholder agreed to grant a call option to Century Planet which Century Planet may exercise at any time during the period of two years after the completion of the acquisition of Gold Image to purchase the remaining one issued share of Gold Image held by the Sole Shareholder at a consideration of US\$1; and (iii) Century Planet will acquire the shareholder's loan in a sum of US\$23,038,052 from the Sole Shareholder at a consideration of US\$23,038,052. The transaction was completed on 31 December 2020. The aggregate consideration of US\$23,048,052 (approximately RMB151,448,000) (the “**Consideration**”) was settled by way of cash. Pacific Smart is a wholly-owned subsidiary of Gold Image and its principal activity is investment in 8,095,527 class A preferred shares (“**Preferred Shares**”) of Venus Pearl SPV2 Co Limited (“**SPV2**”).

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18. FINANCIAL ASSETS AT FVTPL (CONTINUED)

The nature and certain holder's rights associated with the Preferred Shares (which may or may not be available to ordinary shares of SPV2) include but are not limited to the following:

- (i) voting rights;
- (ii) right of participation of issue of new equity securities of SPV2;
- (iii) first right of refusal to purchase securities offered by other shareholders of SPV2;
- (iv) tag right to sale;
- (v) anti-dilution protection if the issue price of any new equity securities of SPV2 is lower than the issue price of the Preferred Shares;
- (vi) adjustment on the number of class A preferred shares of SPV2 depending on the amount of consolidated net profits of SPV2;
- (vii) right of redemption; and
- (viii) liquidation preference.

The Preferred Shares are held by Pacific Smart and are accounted for as its long-term investment. The fair value of the financial assets at FVTPL on 31 December 2021 amounted to approximately RMB153,016,000 (2020: RMB151,599,000).

The above equity investments were irrevocably designated at FVTPL as the Group considers the objective is not to hold in order to collect contractual cash flows. The movements in fair value measurements in Level 3 during the year are disclosed in note 34.

19. INVENTORIES

| | At 31 December | |
|--|----------------|---------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Raw materials | 24,226 | 10,984 |
| Work in progress | 4,080 | 3,179 |
| Finished goods | 17,558 | 11,467 |
| Less: provision for impairment (<i>Note</i>) | (752) | — |
| Inventories | 45,112 | 25,630 |

Note: Provision for impairment of RMB752,000 (2020: nil) was recognised for the amount by which the carrying amount of the inventories exceeds its net realisable value, and was recorded in "cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

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For the year ended 31 December 2021

20. TRADE AND BILLS RECEIVABLES

| | At 31 December | |
|----------------------------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Trade receivables | 381,069 | 370,858 |
| Less: Allowance of credit losses | (9,111) | (6,446) |
| Trade receivables, net | 371,958 | 364,412 |
| Bills receivable (Note) | 2,209 | 27,018 |
| Trade and bills receivables | 374,167 | 391,430 |

Note: At the end of the reporting period, the Group's bills receivable were issued by banks and customers with maturity within six months.

The following is an ageing analysis of trade receivables, net of allowance for credit losses, presented based on invoice date:

| | At 31 December | |
|--|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Less than 6 months | 354,381 | 344,066 |
| More than 6 months, but less than 1 year | 11,343 | 13,816 |
| More than 1 year | 6,234 | 6,530 |
| Trade receivables, net | 371,958 | 364,412 |

For the year ended 31 December 2021, 95.2% (2020: 94.9%) of the Group's sales of optical fibre cables, optical distribution network devices and other materials were made to the Major PRC Telecommunications Network Operators and the remainder was made to other third parties. The Group usually issues invoices in six months after completion of delivery of goods. According to the relevant sales agreements entered into between the Group and the Major PRC Telecommunications Network Operators, 70% – 90% of invoiced amounts is receivable upon issue of invoices. The Group allows credit period within six months to the Major PRC Telecommunication Network Operators for the receipt of the remaining balances. In addition, the Group granted credit periods of not more than one year after completion of delivery of goods to customers with good repayment history. The Group does not obtain collateral from customers.

Details of impairment assessment of trade and bills receivable are set out in note 34.

Notes to the Consolidated Financial Statements

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | At 31 December | |
|---|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Prepayments for inventories | 14,083 | 6,482 |
| Prepayments for acquiring property, plant and equipment | 52 | 701 |
| Prepaid expenses | 486 | 960 |
| Value-added-tax ("VAT") recoverable | 3,811 | 289 |
| | <u>18,432</u> | <u>8,432</u> |
| Other receivables | 16,706 | 7,726 |
| Less: Allowance for credit losses on other receivables | (1,038) | (619) |
| Other receivables, net | <u>15,668</u> | <u>7,107</u> |
| Prepayments, deposits and other receivables | 34,100 | 15,539 |
| Less: Portion classified as non-current portion | (52) | (701) |
| Current portion | <u>34,048</u> | <u>14,838</u> |

Details of impairment assessment of other receivables are set out in note 34.

22. BANK DEPOSITS WITH ORIGINAL MATURITY MORE THAN THREE MONTHS, RESTRICTED BANK DEPOSITS AND BALANCES, BANK DEPOSITS, BANK BALANCES AND CASH

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances carry interest at rates ranging from 0.3% to 4.2% per annum (2020: from 0.3% to 4.2% per annum) at the end of the reporting period.

As at 31 December 2021, bank deposits with original maturity more than three months amounting to approximately RMB106,467,000 (2020: approximately RMB102,600,000) are due for withdrawal in January 2022 (2020: January 2022).

As at 31 December 2021, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits and balances totalling approximately RMB51,147,000 (2020: approximately RMB152,025,000) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

Details of impairment assessment of bank deposits with original maturity of more than three months, restricted bank deposits and balances, bank deposits and bank balances are set out in note 34.

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23. BANK BORROWINGS

| | At 31 December | |
|---|-----------------------|-----------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Secured and guaranteed bank borrowing | 40,286 | 72,276 |
| Unsecured and guaranteed bank borrowings | 210,000 | 100,000 |
| Bank borrowings | 250,286 | 172,276 |
| Variable-rate bank borrowings | 70,286 | 102,276 |
| Fixed-rate bank borrowings | 180,000 | 70,000 |
| | 250,286 | 172,276 |
| Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities) but are repayable based on scheduled repayment dates set out in the loan agreements: | | |
| Within one year | 250,286 | 100,000 |
| More than two years but not exceeding five years | - | 72,276 |
| | 250,286 | 172,276 |
| Less: Amounts due within one year shown under current liabilities | (250,286) | (172,276) |
| Amounts shown under non-current liabilities | - | - |

Included in the balance as at 31 December 2021 are fixed-rate bank borrowings of RMB180,000,000 (2020: RMB70,000,000) which carry interest at rates ranging from 3.28% to 3.45% per annum (2020: ranging from 3.45% to 4.35% per annum).

At 31 December 2021, bank borrowings of RMB70,286,000 (2020: RMB102,276,000) carry interest at variable market interest rates ranging from 0.74% to 3.60% per annum (2020: ranging from 1.86% to 4.35% per annum). Included in the variable-rate bank borrowing, bank borrowing of Euro ("EUR") 5,580,000 (equivalent to approximately RMB40,286,000) (2020: EUR9,080,000 (equivalent to approximately RMB72,276,000)) is secured by a letter of guarantee issued by a bank (that is, in turn, secured by certain bank deposits) and is guaranteed by a director of the Company. All the other bank borrowings are denominated in the functional currency of the group entities and guaranteed by group companies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

24. TRADE AND BILLS PAYABLES

| | At 31 December | |
|--------------------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Trade payables | 112,492 | 120,914 |
| Bills payable | 94,571 | 94,963 |
| Trade and bills payables | 207,063 | 215,877 |

The average credit period on purchases of materials was within four months upon receipts of the materials and the relevant VAT invoices.

The following is an ageing analysis of trade payables, presented based on the invoice date:

| | At 31 December | |
|--|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Less than 6 months | 108,138 | 118,177 |
| More than 6 months, but less than 1 year | 1,756 | 453 |
| More than 1 year | 2,598 | 2,284 |
| Trade payables | 112,492 | 120,914 |

Included in trade payables are amount due to an associate of RMB22,752,000 (2020: RMB40,939,000) as at 31 December 2021. The amount due to the associate is unsecured, interest-free and payable according to the relevant purchase agreements.

Included in trade payables, amount of RMB1,577,000 are due to a related party as at 31 December 2021 (2020: nil). The amount due to a related party is unsecured, interest free and payable according to the relevant purchase agreement.

At the end of the reporting period, the Group's bills payable were issued by banks with maturity within six months and were secured by the Group's certain restricted bank deposits and balances.

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25. OTHER PAYABLES

| | At 31 December | |
|--|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Advance from the ultimate holding company (Note (a)) | 167 | 5,167 |
| Amount due to a director (Note (b)) | 14,440 | – |
| Other payables (Note (c)) | 9,409 | 10,129 |
| Staff costs payable | 14,667 | 15,356 |
| Other taxes payable | 21,488 | 20,244 |
| | <hr/> | <hr/> |
| Other payables | 60,171 | 50,896 |

Notes:

- (a) The amount advanced from the Company's ultimate holding company is unsecured, interest-free and repayable on demand.
- (b) The amount due to a director is unsecured, interest-free and repayable on demand.
- (c) Other payables mainly included transportation costs payables and payables for acquiring property, plant and equipment.

26. LOAN FROM A JOINT VENTURE

At 31 December 2021, the amount is unsecured, interest bearing at 4.35% (2020: 4.35%) per annum and repayable on or before 25 December 2022 (2020: repayable on or before 25 December 2021).

27. CONTRACT LIABILITIES

The Group presents advances from customers as contract liabilities on the consolidated statement of financial position.

The Group has recognised the following contract liabilities:

| | At 31 December | |
|------------------------------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Contract liabilities arising from: | | |
| – Optical fibre cables | 395 | 400 |
| – Prepainted steel sheet | 457 | – |
| | <hr/> | <hr/> |
| Contract liabilities | 852 | 400 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

27. CONTRACT LIABILITIES (CONTINUED)

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in each of the year relates to carried-forward contract liabilities at the beginning of the year:

| | Year ended 31 December | |
|------------------------------------|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Contract liabilities arising from: | | |
| – Optical fibre cables | 268 | 388 |

28. LEASE LIABILITIES

| | At 31 December | |
|--|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Lease liabilities payable | | |
| Within one year | 344 | 849 |
| Within a period of more than one year but not more than two years | 356 | 144 |
| Within a period of more than two years but not more than five years | 211 | – |
| Lease liabilities | 911 | 993 |
| Less: Amount due for settlement within 12 months shown under current liabilities | (344) | (849) |
| Amount due for settlement after 12 months shown under non-current liabilities | 567 | 144 |

The above lease liabilities arose from leasing an office premise for three years starting in September 2021 (2020: three years starting in March 2020) and are discounted at 3% (2020: 3%) per annum.

Notes to the Consolidated Financial Statements

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29. DEFERRED TAXATION

The movements in deferred tax assets (liabilities) during the year are as follows:

Deferred tax assets:

| | Allowance for impairment of trade and other receivables | Deferred income | Tax losses | Unrealised (losses) profit eliminated in inventories | Provision of Inventories | Accrual for staff costs | Total |
|-----------------------------------|--|--------------------|---------------|---|-----------------------------|----------------------------|---------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2020 | 940 | 2,338 | - | (175) | - | 986 | 4,089 |
| Credit to profit or loss | 120 | 109 | 7,010 | 206 | - | 302 | 7,747 |
| At 31 December 2020 | 1,060 | 2,447 | 7,010 | 31 | - | 1,288 | 11,836 |
| Credit (charge) to profit or loss | 535 | (97) | 12,848 | 104 | 188 | - | 13,578 |
| At 31 December 2021 | 1,595 | 2,350 | 19,858 | 135 | 188 | 1,288 | 25,414 |

Deferred tax liabilities:

| | Distributable profits of subsidiaries, an associate and a joint venture |
|--------------------------|---|
| | RMB'000 |
| At 1 January 2020 | (8,949) |
| Utilised | 2,944 |
| Credit to profit or loss | 1,751 |
| At 31 December 2020 | (4,254) |
| Charge to profit or loss | (2,013) |
| At 31 December 2021 | (6,267) |

Notes to the Consolidated Financial Statements

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29. DEFERRED TAXATION (CONTINUED)

According to the PRC EIT Law and its related regulations, the Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Since the Group controls the dividend policy of the Group's PRC subsidiaries, deferred tax liability arising from the undistributed profits of the Group's PRC subsidiaries is only provided to the extent that such profits are expected to be distributed in the foreseeable future.

30. DEFERRED INCOME

The deferred income mainly represents subsidies for the Group's certain prepaid lease payments/right-of-use assets and equipment.

31. SHARE CAPITAL

| | Number of shares '000 | Share capital HK\$'000 |
|--|--------------------------|---------------------------|
| Ordinary share of HK\$0.001 each | | |
| Authorised: | | |
| At 1 January 2020, 31 December 2020 and 2021 | 8,000,000 | 8,000 |
| Issued and fully paid: | | |
| At 1 January 2020, 31 December 2020 and 1 January 2021 | 1,120,000 | 1,120 |
| Shares issued upon the exercise of share options (<i>note a</i>) | 112,000 | 112 |
| Share issued upon placement (<i>note b</i>) | 246,400 | 246 |
| At 31 December 2021 | 1,478,400 | 1,478 |

Notes to the Consolidated Financial Statements

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31. SHARE CAPITAL (CONTINUED)

Presented in the consolidated financial statements as

| | RMB'000 |
|--|--------------|
| At 1 January 2020, 31 December 2020 and 1 January 2021 | 997 |
| Shares issued upon the exercise of share options (<i>note a</i>) | 93 |
| Share issued upon placement (<i>note b</i>) | 201 |
| | <hr/> |
| At 31 December 2021 | 1,291 |

Notes:

- (a) On 11 June 2021, share options were exercised by the subscribers for 112,000,000 ordinary shares of the Company at a consideration of approximately RMB31,551,000 of which approximately RMB93,000 was credited to share capital and approximately RMB31,458,000 was credited to the share premium account. As a result of the exercise of share options, share option reserve of approximately RMB14,934,000 has been transferred to share premium account.
- (b) On 26 November 2021, the Company entered into a placing agreement (the "**Placing Agreement**") with a placing agent, to procure not less than six placees who are independent third parties to the Company to subscribe 246,400,000 placing shares at the placing price of HK\$0.125 per placing share (the "**Placing**"). All conditions of the Placing Agreement were fulfilled. The Placing was completed and fully subscribed on 13 December 2021. The gross proceeds from the Placing amounted to approximately HK\$30,800,000 (equivalent to approximately RMB25,144,000) and related directly attributable expenses were approximately HK\$772,000 (equivalent to approximately RMB631,000).

32. SHARE OPTION SCHEME

Pursuant to written resolutions passed on 24 November 2016, the Company adopted a share option scheme (the "**Share Option Scheme**"). The Share Option Scheme is valid for a period of 10 years commencing on 24 November 2016. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the board of directors of the Company may, at its discretion, grant options to subscribe for ordinary shares of the Company to eligible participants ("**Eligible Participants**") who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which any member of the Group holds an equity interest; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the ordinary share capital of the Company in issue from time to time. The total number of ordinary shares which may be allotted and issued upon exercise of all options to be granted under Share Options Scheme and any other share option of the Group must not in aggregate exceed 10% of the ordinary shares in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme.

Notes to the Consolidated Financial Statements

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32. SHARE OPTION SCHEME (CONTINUED)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's ordinary shares at the date of the grant) in excess of HK\$5,000,000, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, save that such period shall not be more than ten years from the date of the offer of the share options, subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the Directors at their absolute discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised. In addition, there is no performance target which must be achieved before any of the options can be exercised.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's ordinary shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's ordinary shares for the five business days immediately preceding the date of the offer; and (iii) the nominal value of the Company's ordinary shares on the date of the offer.

Movements in the number of share options outstanding under the Scheme during the year are as follows:

| | Year ended 31 December 2021 | |
|--|-----------------------------|------------------------------------|
| | Exercise price HK\$ | Number of share options '000 |
| Outstanding at the beginning of the year | - | - |
| Granted during the year | 0.342 | 112,000 |
| Exercised during the year | 0.342 | (112,000) |
| Outstanding at the end of the year | | - |

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32. SHARE OPTION SCHEME (CONTINUED)

All the share options granted under the Scheme during the year were granted on 27 May 2021, which were exercisable from 27 May 2021 to 26 May 2031 by the relevant grantees (all being employees of the Group). All such options were exercised and the closing price on the date of exercising such options was HK\$0.330. The fair value of each of such options was HK\$0.162, which was determined based on the following information:

| | As at 27 May 2021 |
|-----------------------------|------------------------------|
| Option pricing model used | Binomial lattice |
| Closing price at grant date | HK\$0.340 |
| Exercise price | HK\$0.342 |
| Contractual life | 10 years |
| Expected volatility | 57.94% |
| Expected dividend rate | 0.00% |
| Risk-free interest rate | <u>1.17%</u> |

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the remaining life of the share options.

The calculation results of the value of the share options are subject to a number of assumptions and the limitation of the model adopted. Hence, the estimated value of the share options may be subjective and is subject to uncertainties.

Equity-settled share-based payment expenses of approximately RMB14,934,000 were recognised during the year (2020: nil).

33. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts (representing loan from a joint venture, lease liabilities, bank borrowings and advance from the ultimate holding company), net of bank deposits, bank balances and cash, and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

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34. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | At 31 December | |
|------------------------------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Financial assets | | |
| Financial assets at amortised cost | 825,767 | 776,061 |
| Financial assets at FVTPL | 153,016 | 151,599 |
| Financial liabilities | | |
| Amortised cost | 510,600 | 431,449 |

Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---------------------------------|------------------|-----------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 | 2021 RMB'000 | 2020 RMB'000 |
| Financial asset at FVTPL | | | | |
| Unlisted equity investment | 153,016 | 151,599 | 153,016 | 151,599 |

Level 3 instrument comprises financial assets at FVTPL which are not traded in an active market and their valuation was undertaken by APAC Appraisal and Consulting Limited, an independent qualified professional valuer. Market approach was used to determine the underlying equity value of the Company and guideline public company method model were adopted to determine the fair value of the financial assets at FVTPL as at 31 December 2021.

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34. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value and fair value hierarchy of financial instruments (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2021

| | Fair value measurement using | | | Total RMB'000 |
|----------------------------|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | significant unobservable inputs (Level 3) RMB'000 | |
| Unlisted equity investment | - | - | 153,016 | 153,016 |

As at 31 December 2020

| | Fair value measurement using | | | Total RMB'000 |
|----------------------------|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | significant unobservable inputs (Level 3) RMB'000 | |
| Unlisted equity investment | 151,599 | - | - | 151,599 |

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|-----------------|-----------------|
| Unlisted equity investment | | |
| At 1 January | - | - |
| Transfer in | 151,599 | |
| Change in fair value of financial assets of FVTPL | 1,417 | - |
| At 31 December | 153,016 | - |

Due to change in market condition, quoted prices in active markets were no longer available for the unlisted equity investment. Therefore, the unlisted equity instrument was transferred from Level 1 to Level 3 of the fair value hierarchy in 2021.

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34. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value and fair value hierarchy of financial instruments (continued)

Assets measured at fair value: (continued)

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021:

| | Valuation Technique | Significant unobservable input | Sensitivity of fair value to the input |
|--|--|---|--|
| Equity investments designated at FVTPL | Valuation multiples | Enterprise-value-to-sales multiple of peers | 10% (2020: nil) increase in multiple would result in increase in fair value by RMB18,490,000 (2020: nil) |
| | | | 10% (2020: nil) decrease in multiple would result in decrease in fair value by RMB9,564,000 (2020: nil) |
| | Income approach with the discounted cash flow method | Discounted for lack of marketability | 5% (2020: nil) increase (decrease) in discount would result in decrease (increase) in fair value by RMB1,913,000 (2020: nil) |

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Financial risk management objectives and policies

The major financial instruments include trade, bills and other receivables, bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits, bank balances and cash, financial assets at FVTPL, trade, bills and other payables, loan from a joint venture, advance from the ultimate holding company and bank borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group is exposed to financial risks; principally market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. Continuous monitoring of these risks ensures that the Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

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34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk

Currency risk

While the Group's operations were principally in the PRC during the year and it mainly made sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company, amount due to a director and a bank borrowing denominated in foreign currencies other than RMB. The Group may use any contracts to hedge against its exposure to currency risk, as appropriate, and the directors manage its foreign currency risk by closely monitoring the movement of the foreign currency rate.

At the end of the reporting period, the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities are as follows:

| | At 31 December | |
|---|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Assets | | |
| Bank deposits and balances | | |
| – HK\$ | 25,228 | 4,117 |
| – US\$ | 49 | 54 |
| – EUR | 376 | 70 |
| Liabilities | | |
| Bank borrowing | | |
| – EUR | 40,286 | 72,276 |
| Advance from the ultimate holding company | | |
| – HK\$ | 167 | 5,167 |
| Amount due to a director | | |
| – EUR | 14,440 | – |

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34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk (continued)

The following table details the Group's sensitivity to a 5% (2020: 5%) increase in the exchange rate of RMB against HK\$, US\$ and EUR. 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 rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2020: 5%) change in RMB against HK\$, US\$ and EUR.

| | At 31 December | |
|---|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| RMB strengthen 5% against HK\$ Increase in post-tax loss (2020: Decrease in post-tax loss) | <u>1,270</u> | <u>53</u> |
| RMB strengthen 5% against US\$ Increase in post-tax loss | <u>2</u> | <u>3</u> |
| RMB strengthen 5% against EUR Decrease in post-tax loss | <u>1,274</u> | <u>3,614</u> |

For a 5% (2020: 5%) weakening of the RMB against HK\$, US\$ and EUR, there would be an equal and opposite impact on the post-tax results for the year.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits, loan from a joint venture, lease liabilities and fixed rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial instruments, mainly, restricted bank balances, bank balances and variable rate bank borrowings which carried at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing restricted bank balances, bank balances and bank borrowings at the end of the reporting period and assumed that these amounts outstanding at the end of the reporting period were outstanding for the whole relevant year.

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34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

If interest rates on restricted bank balances, bank balances and variable rate bank borrowings of the Group had been 10 basis points (2020: 10 basis points) higher, and all other variables were held constant, the potential effect on post-tax results is as follows:

| | Year ended 31 December | |
|---|------------------------|---------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Decrease in post-tax loss (2020: Decrease in post-tax loss) | 308 | 144 |

There would be an equal and opposite impact on the above post-tax loss, should the aforesaid interest rate be 10 basis points lower in the above sensitivity analysis.

The above sensitivity analysis represents management's assessment of the reasonably possible change in interest rate.

Price risk on financial assets at FVTPL

The Group is exposed to other price risk through its investment in financial assets at FVTPL (as disclosed in note 18).

The sensitivity analysis below has been determined based on the exposure to price risk at the end of the reporting period.

If the price of the investment in financial assets at FVTPL as at 31 December 2021 had been 5% higher/lower(2020: 5%), a decrease in post-tax loss of RMB7,715,000 (2020: decrease in post-tax loss of RMB7,580,000) for the year ended 31 December 2021 as a result of the change in fair value of the financial assets at FVTPL. In management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk since the exposure at 31 December 2021, when the acquisition of the investment was completed, does not reflect the exposure during the year then ended.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

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

Trade and bills receivables arising from contracts with customers

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables. The management of the Group performs impairment assessment on individual debtor basis to estimate the amount of lifetime ECL of trade and bills receivables based on internal credit ratings, ageing, repayment history and/or past due status of respective debtors. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information.

An impairment loss under ECL model, net of reversal, of RMB2,665,000 (2020: RMB589,000) is recognised for trade receivables for the year. Details of the quantitative disclosure are set out below in this note.

Other receivables

The management of the Group performs impairment assessment on individual debtor basis to estimate the amount of ECL of other receivables based on internal credit ratings, ageing, collateral, repayment history and/or past due status of respective other receivables and adjusted for forward-looking information. The 12m ECL for other receivables of RMB1,038,000 (2020: RMB619,000) was recognised as at 31 December 2021.

Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances

The management of the Group assessed that the Group's bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances are at low credit risk because they are placed with reputable banks with higher internal credit ratings with reference to either international or PRC credit-rating agencies, and ECL is insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

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

| Internal credit rating | Description | Trade and bills receivables | Other financial asset |
|------------------------|---|------------------------------------|--------------------------------|
| Level 1 | The counterparty has great ability of repayment, low risk of default and has no history of impairment loss. | Lifetime ECL – not credit-impaired | 12m ECL |
| Level 2 | The counterparty has good ability of repayment, but may infrequently settle after due date. | Lifetime ECL – not credit-impaired | 12m ECL |
| Level 3 | The counterparty has enough ability of repayment, but may settle in full after due date. | Lifetime ECL – not credit-impaired | 12m ECL |
| Level 4 | There is evidence indicating the asset is credit-impaired. | Lifetime ECL – not credit-impaired | Lifetime ECL – credit-impaired |
| Level 5 | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery. | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |

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For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The table below details the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

| | Notes | Internal credit rating | 12m or lifetime ECL | Average loss rate | | 2021 Gross carrying amount RMB'000 | 2020 Gross carrying amount RMB'000 |
|---|-------|------------------------|------------------------------------|-------------------|----------|--|--|
| | | | | 2021 (%) | 2020 (%) | | |
| Financial assets at amortised cost | | | | | | | |
| Bank deposits with original maturity more than three months, restricted bank deposits and balances, bank deposits and bank balances | 22 | Level 1 | 12m ECL | - | - | 435,715 | 377,075 |
| Other receivables | 21 | Level 1 | 12m ECL | 0.55 | 0.11 | 347 | 2,617 |
| | | Level 2 | 12m ECL | n/a | 2.29 | - | 1,013 |
| | | Level 3 | 12m ECL | 6.33 | 7.01 | 16,359 | 4,096 |
| | | | | | | 16,706 | 7,726 |
| Trade and bills receivables – contracts with customers | 20 | Level 1 | Lifetime ECL (not credit-impaired) | 0.55 | 0.11 | 320,530 | 375,433 |
| | | Level 2 | Lifetime ECL (not credit-impaired) | 2.13 | 2.29 | 55,198 | 16,666 |
| | | Level 3 | Lifetime ECL (not credit-impaired) | 6.33 | n/a | 1,454 | - |
| | | Level 5 | Lifetime ECL (credit-impaired) | 100.00 | 100.00 | 6,096 | 5,777 |
| | | | | | | 383,278 | 397,876 |

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For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Allowance for impairment

During the current year, the movements in allowance for impairment that has been recognised for trade and other receivables were as follows:

| | Trade receivables | | Other receivables | |
|---|-------------------|---------------------|---------------------|---------------|
| | Credit-impaired | Not credit-impaired | Not credit-impaired | Total |
| | (Lifetime ECL) | (Lifetime ECL) | (12m ECL) | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2020 | 5,652 | 205 | 409 | 6,266 |
| Credit losses recognised, net of reversal | 125 | 464 | 210 | 799 |
| At 31 December 2020 | 5,777 | 669 | 619 | 7,065 |
| Credit losses recognised, net of reversal | 319 | 2,346 | 419 | 3,084 |
| At 31 December 2021 | 6,096 | 3,015 | 1,038 | 10,149 |

Concentration on credit risk

The Group has concentration of credit risk because 83.8% (2020: 93.9%) of trade receivables as at 31 December 2021 were due from the Major PRC Telecommunications Network Operators with good repayment history and strong financial background.

Other than the above, the Group does not have significant concentration of credit risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk

The Group's management monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available and issue of new ordinary shares.

The following table details the Group's remaining contractual maturity for its 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. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

| | Weighted average interest rate % | Repayable on demand or less than six months RMB'000 | Seven months to one year RMB'000 | One to five years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---------------------------------|---|---|---|---------------------------------|--|-------------------------------|
| At 31 December 2021 | | | | | | |
| Bank borrowings | | | | | | |
| – at fixed rate | 3.4 | 180,000 | - | - | 180,000 | 180,000 |
| – at variable rate | 3.6 | 70,286 | - | - | 70,286 | 70,286 |
| Loan from a joint venture | 4.4 | - | 30,453 | - | 30,453 | 29,235 |
| Trade, bills and other payables | N/A | 231,079 | - | - | 231,079 | 231,079 |
| | | 481,365 | 30,453 | - | 511,818 | 510,600 |
| Lease liabilities | 3.0 | 183 | 183 | 579 | 945 | 911 |
| At 31 December 2020 | | | | | | |
| Bank borrowings | | | | | | |
| – at fixed rate | 4.3 | 70,000 | - | - | 70,000 | 70,000 |
| – at variable rate | 2.6 | 102,276 | - | - | 102,276 | 102,276 |
| Loan from a joint venture | 4.4 | - | 29,218 | - | 29,218 | 28,000 |
| Trade, bills and other payables | N/A | 231,173 | - | - | 231,173 | 231,173 |
| | | 403,449 | 29,218 | - | 432,667 | 431,449 |
| Lease liabilities | 3.0 | 433 | 434 | 145 | 1,012 | 993 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Bank loans with a repayment on demand clause are included in the “Repayable on demand or less than six months” time band in the above maturity analysis. As at 31 December 2021, the aggregate carrying amounts of these bank loans amounted to RMB250,286,000 (2020: RMB172,276,000). Taking into account the Group’s financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank loans will be repaid within two years (2020: within three years) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

| | Weighted average interest rate % | Less than six months RMB'000 | Seven months to one year RMB'000 | One to five years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|----------------------------|---|------------------------------------|---|---------------------------------|--|-------------------------------|
| At 31 December 2021 | | | | | | |
| Bank borrowings | | | | | | |
| – at fixed rate | 3.4 | 160,259 | 20,690 | – | 180,949 | 180,000 |
| – at variable rate | 3.6 | 40,311 | 30,990 | – | 71,301 | 70,286 |
| | | <u>200,570</u> | <u>51,680</u> | <u>–</u> | <u>252,250</u> | <u>250,286</u> |
| At 31 December 2020 | | | | | | |
| Bank borrowings | | | | | | |
| – at fixed rate | 4.3 | – | 72,863 | – | 72,863 | 70,000 |
| – at variable rate | 2.6 | – | 32,467 | 72,998 | 105,465 | 102,276 |
| | | <u>–</u> | <u>105,330</u> | <u>72,998</u> | <u>178,328</u> | <u>172,276</u> |

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis

Except for the financial assets at FVTPL, the fair value of the Group’s financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in these consolidated financial statements approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

35. CAPITAL COMMITMENTS

| | At 31 December | |
|--|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment | - | 1,070 |

36. RELATED PARTY TRANSACTIONS

Other than the transactions and balances with related parties disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Sales of other materials to an associate | 1,118 | 1,519 |
| Purchases of optical fibre and other materials from an associate | 106,395 | 125,568 |
| Purchases of raw materials from the holding company and fellow subsidiaries of the Group's joint venture partner | 1,322 | 72 |

The above transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and are conducted in accordance with the terms of the relevant agreements.

Besides, the remuneration of the directors of the Company and other members of key management during the year were as follows:

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| Salaries, wages and allowances | 5,721 | 5,264 |
| Retirement benefits scheme contributions | 500 | 281 |
| | 6,221 | 5,545 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

36. RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the above, the Group's joint venture had the following transactions with Jiangsu Hengtong Light Guide New Materials Company Limited (江蘇亨通光導新材料有限公司) ("**Hengtong Light Guide**", the Group's joint venture partner) and the Group's associate:

- (a) The joint venture purchased certain optical fibre preforms and raw materials with an aggregate amount of RMB57,239,000 (2020: RMB234,419,000) from Hengtong Light Guide during the year;
- (b) No optical fibre preforms were sold by the joint venture to Hengtong Light Guide during the year (2020: RMB174,962,000);
- (c) The joint venture leased certain factory premises from Hengtong Light Guide with an aggregate rental of RMB1,572,000 (2020: RMB1,544,000) during the year;
- (d) The joint venture sold optical fibre preforms with an aggregate amount of RMB93,097,000 (2020: RMB97,438,000) to the Group's associate during the year; and
- (e) No service was provided by the joint venture to Hengtong Light Guide during the year (2020: RMB3,971,000).

The above transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules and are conducted in accordance with the terms of the relevant agreements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

37. 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.

| | Dividend payable | Advance from the ultimate holding company | Amount due to a director | Loan from a joint venture | Lease liabilities | Bank Borrowings | Total |
|--|------------------|---|--------------------------|---------------------------|-------------------|-----------------|-----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2020 | - | 5,405 | - | - | 1,817 | 110,000 | 117,222 |
| Cash changes: | | | | | | | |
| Proceeds from bank borrowings | - | - | - | - | - | 202,056 | 202,056 |
| Repayments of bank borrowings | - | - | - | - | - | (140,000) | (140,000) |
| Loan from a joint venture | - | - | - | 28,000 | - | - | 28,000 |
| Repayment of lease liabilities | - | - | - | - | (824) | - | (824) |
| Repayment to ultimate holding company | - | (238) | - | - | - | - | (238) |
| Interest on lease liabilities and bank borrowings paid | - | - | - | - | (43) | (4,950) | (4,993) |
| Dividend paid | (39,200) | - | - | - | - | - | (39,200) |
| Non-cash changes: | | | | | | | |
| Interest on bank borrowings recognised | - | - | - | - | - | 4,950 | 4,950 |
| Dividend declared | 39,200 | - | - | - | - | - | 39,200 |
| Exchange losses, net | - | - | - | - | - | 220 | 220 |
| Interest on lease liabilities recognised | - | - | - | - | 43 | - | 43 |
| At 31 December 2020 | - | 5,167 | - | 28,000 | 993 | 172,276 | 206,436 |
| Cash changes: | | | | | | | |
| Proceeds from bank borrowings | - | - | - | - | - | 230,000 | 230,000 |
| Repayments of bank borrowings | - | - | - | - | - | (146,902) | (146,902) |
| Repayment of lease liabilities | - | - | - | - | (604) | - | (604) |
| Received from a director | - | - | 15,740 | - | - | - | 15,740 |
| Repayments of ultimate holding company | - | (5,000) | - | - | - | - | (5,000) |
| Interest on lease liabilities and bank borrowings paid | - | - | - | - | (23) | (8,587) | (8,610) |
| Non-cash changes: | | | | | | | |
| Interest on bank borrowings recognised | - | - | - | - | - | 8,587 | 8,587 |
| Interest on loan from a joint venture | - | - | - | 1,235 | - | - | 1,235 |
| Exchange gains, net | - | - | (1,300) | - | - | (5,088) | (6,388) |
| Interest on lease liabilities recognised | - | - | - | - | 23 | - | 23 |
| Lease modification | - | - | - | - | (501) | - | (501) |
| New lease entered | - | - | - | - | 1,023 | - | 1,023 |
| At 31 December 2021 | - | 167 | 14,440 | 29,235 | 911 | 250,286 | 295,039 |

Notes to the Consolidated Financial Statements

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38. GENERAL INFORMATION OF THE COMPANY'S SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2021 and 2020 are set out as follows:

| Name of subsidiary | Place of incorporation/ establishment and place of operation | Issued and fully paid capital/ registered capital | Shareholding/equity interest attributable to the Company at 31 December | | Principal activities |
|---|--|---|---|--------|---|
| | | | 2021 | 2020 | |
| <i>Directly held:</i> | | | | | |
| Century Planet | BVI/Hong Kong | Ordinary share capital of US\$1 | 100% | 100% | Investment holding |
| <i>Indirectly held:</i> | | | | | |
| Nanfang Communication Group Limited | Hong Kong | Ordinary share capital of HK\$10,000 | 100% | 100% | Investment holding |
| MacroSmart [†] | The PRC | Paid-up registered capital of US\$38,840,000 | 100% | 100% | Investment holding |
| Nanfang Communication* | The PRC | Paid-up registered capital of RMB379,000,000 | 100% | 100% | Manufacturing and sale of optical fibre cables and optical distribution network devices |
| Yingke* | The PRC | Paid-up registered capital of RMB50,000,000 | 100% | 100% | Manufacturing and sale of optical fibre cables and optical distribution network devices |
| Gold Image | BVI | Ordinary share capital of US\$10,000 | 100% | 99.99% | Investment holding |
| Pacific Smart | BVI | Ordinary share capital of US\$1 | 100% | 99.99% | Investment holding |
| Jiangsu Nanfang Information Technology Company Limited [†] | The PRC | Paid-up registered capital of RMB15,000,000 | 100% | 100% | Processing and sales of prepainted steel sheet |
| Nanfang Vision Limited | Hong Kong | Ordinary share Capital of HK\$100,000 | 100% | N/A | Investment holding |

[†] This company is a wholly foreign owned enterprise established in the PRC.

* These companies are wholly domestic owned enterprises established in the PRC.

None of the subsidiaries has issued any debt securities at the end of the year.

Notes to the Consolidated Financial Statements

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39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | At 31 December | |
|---------------------------------------|-----------------|-----------------|
| | 2021 RMB'000 | 2020 RMB'000 |
| NON-CURRENT ASSETS | | |
| Investment in a subsidiary | 185,556 | 185,556 |
| Right-of-use assets | 907 | 966 |
| | 186,463 | 186,522 |
| CURRENT ASSETS | | |
| Other receivables | 233 | 428 |
| Due from subsidiaries | 58,736 | 27,910 |
| Bank balances and cash | 28,799 | 8,038 |
| | 87,768 | 36,376 |
| CURRENT LIABILITIES | | |
| Other payables | 899 | 250 |
| Lease liabilities | 344 | 849 |
| | 1,243 | 1,099 |
| NET CURRENT ASSETS | 86,525 | 35,227 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 272,988 | 221,799 |
| CAPITAL AND RESERVES | | |
| Share capital | 1,291 | 997 |
| Reserves | 271,130 | 220,658 |
| TOTAL EQUITY | 272,421 | 221,655 |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities | 567 | 144 |
| | 272,988 | 221,799 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movements of the Company's reserves

| | Share premium | Retained profits (accumulated loss) | Total |
|--|--------------------------|--|-----------------|
| | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2020 | 214,255 | 50,948 | 265,203 |
| Loss and total comprehensive expense for the year | – | (5,345) | (5,345) |
| Dividend paid (<i>Note 13</i>) | – | (39,200) | (39,200) |
| | <hr/> | <hr/> | <hr/> |
| As at 31 December 2020 | 214,255 | 6,403 | 220,658 |
| Loss and total comprehensive expense for the year | – | (20,232) | (20,232) |
| Shares issued upon placement (<i>Note 31(b)</i>) | 24,312 | – | 24,312 |
| Equity-settled share-based payment (<i>Note 31(a)</i>) | 46,392 | – | 46,392 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2021 | 284,959 | (13,829) | 271,130 |