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## **China Saftower International Holding Group Limited**

### **中國蜀塔國際控股集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8623)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021**

The board of directors of China Saftower International Holding Group Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries for the year ended 31 December 2021. This announcement, which contains the full text of the 2021 annual report of the Company (“**2021 Annual Report**”), complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) in relation to information to accompany preliminary announcement of annual results. Printed version of the Company’s 2021 Annual Report will be delivered to the shareholders of the Company and available for viewing on the websites of GEM at [www.hkgem.com](http://www.hkgem.com) and of the Company at [www.saftower.cn](http://www.saftower.cn) in due course.

By Order of the Board

**China Saftower International Holding Group Limited**  
**Dang Fei**

*Chairman and Executive Director*

Hong Kong, 31 March 2022

*As at the date of this announcement, the executive Directors are Mr. Dang Fei, Mr. Wang Xiaozhong, Ms. Luo Xi and Mr. Luo Qiang, the non-executive Director is Mr. Wang Haichen and the independent non-executive Directors are Dr. Zuo Xinzhang, Mr. Chan Oi Fat and Ms. Hu Xiaomin.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Listed Company Information” page for at least seven days from the date of its publication and on the website of the Company at [www.saftower.cn](http://www.saftower.cn).*

*In the case of inconsistency, the English text of this announcement shall prevail over the Chinese text.*

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*This report, for which the directors (the “**Directors**” or individually a “**Director**”) of China Saftower International Holding Group Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company and its subsidiaries (collectively referred to as the “**Group**”, “**We**”, “**our**” or “**us**”). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Dang Fei (*Chairman and chief executive officer*)  
Mr. Wang Xiaozhong  
Ms. Luo Xi  
Mr. Luo Qiang

### Non-executive Director

Mr. Wang Haichen

### Independent non-executive Directors

Dr. Zuo Xinzhang  
Mr. Chan Oi Fat  
Ms. Hu Xiaomin

## COMPANY SECRETARY

Mr. Woo Yuen Ping

## COMPLIANCE OFFICER

Mr. Wang Xiaozhong

## AUTHORISED REPRESENTATIVES

Mr. Woo Yuen Ping  
Mr. Dang Fei

## AUDIT COMMITTEE

Mr. Chan Oi Fat (*Chairperson*)  
Dr. Zuo Xinzhang  
Ms. Hu Xiaomin

## REMUNERATION COMMITTEE

Ms. Hu Xiaomin (*Chairperson*)  
Dr. Zuo Xinzhang  
Mr. Chan Oi Fat

## NOMINATION COMMITTEE

Mr. Dang Fei (*Chairperson*)  
Dr. Zuo Xinzhang  
Mr. Chan Oi Fat  
Ms. Hu Xiaomin

## INDEPENDENT AUDITOR

BDO Limited  
(*Certified Public Accountants*)

## COMPLIANCE ADVISER

Alliance Capital Partners Limited

## LEGAL ADVISER

(*As to Hong Kong law*)  
ONC Lawyers

## REGISTERED OFFICE

4th Floor, Harbour Place  
103 South Church Street  
P.O. Box 10240  
Grand Cayman KY1-1002  
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 9, Huaide Road, Sichuan-Zhejiang  
Cooperation Industrial Park,  
Guangyuan Economic and  
Technological Development Zone,  
Guangyuan, Sichuan Province,  
the PRC

## CORPORATE INFORMATION

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit D, 17/F.  
8 Hart Avenue  
Tsim Sha Tsui, Kowloon  
Hong Kong

### PRINCIPAL BANKERS

Bank of Communications Company Limited  
Chengdu Pidu Branch  
No. 178–188, Kehua Second Road,  
Pitong Town  
Pidu District, Chengdu  
Sichuan Province  
PRC

Bank of China Limited  
Pidu Branch  
No. 2 South Street  
Pidu District, Chengdu  
Sichuan Province  
PRC

Chengdu Rural Commercial Bank Company Limited  
Pidu Hongxing Branch  
No. 198 Wangcong East Road,  
Pitong Town  
Pidu District, Chengdu  
Sichuan Province  
PRC

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Appleby Global Services (Cayman) Limited  
71 Fort Street, PO Box 500  
George Town  
Grand Cayman KY1-1106  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### STOCK CODE

8623

### COMPANY'S WEBSITE

[www.saftower.cn](http://www.saftower.cn)

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the “**Board**”) of China Saftower International Holding Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”, “**we**” or “**us**”), I am pleased to present the annual results of our Group for the year ended 31 December 2021.

The year 2021 has been full of challenges. The long-lasting outbreak of the pandemic negatively affected the vitality of economy. To certain extent, our Group also suffered from the temporarily lock down of cities, increment of logistic cost and disruption to the supply chain. Globally, the tension of international geopolitics and the Russian-Ukrainian War lead to the fluctuation of commodities which affected our cost of sales.

Facing the challenges, the management of the Group will seek for opportunity from the crisis. We will lead our team to overcome all the difficulties and tackle all potential risks and we shall take a positive mind to adapt the new-normal economy. During the year 2021, we acquired 70% equity shares of Yaan Baosheng Metal Material Co., Ltd. which is engaged in processing of aluminum cast-rolled coil and aluminum plate manufacturing of foil. We believe the acquisition will benefit our upstream aluminium processing activity, which is expected to be a prosperity sector in the PRC.

Finally, I would like to express appreciation to my team for the hard effort during the tough situation in 2021. Also, I wish all stakeholders of the Group being a good health and good prospects in 2022!

On behalf of the Board

**Dang Fei**

*Chairman and Executive Director*

31 March 2022

# FINANCIAL HIGHLIGHTS

## CONSOLIDATED FINANCIAL PERFORMANCE

	For the year ended 31 December	
	2021 RMB'000	2020 RMB'000
Revenue	544,389	518,159
(Loss)/profit before income tax credit	(30,647)	2,666
(Loss)/profit for the year attributable to the owners of the Company	(25,224)	1,895

## CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December	
	2021 RMB'000	2020 RMB'000
<i>Assets</i>		
Non-current assets	159,051	134,318
Current assets	310,760	214,756
<b>Total assets</b>	<b>469,811</b>	<b>349,074</b>
<i>Equity and liabilities</i>		
Total equity	161,091	176,144
Non-current liability	5,375	7,394
Current liabilities	303,345	165,536
<b>Total liabilities</b>	<b>308,720</b>	<b>172,930</b>
<b>Total equity and liabilities</b>	<b>469,811</b>	<b>349,074</b>
<b>Net current assets</b>	<b>7,415</b>	<b>49,220</b>
<b>Total assets less current liabilities</b>	<b>166,466</b>	<b>183,538</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is a regional manufacturer and supplier of wires and cables, with integrated production facilities situated in Chengdu and Guangyuan of Sichuan Province, the PRC. The Group's products can be broadly classified into four categories: (i) finished wires and cables; (ii) semi-finished wires; (iii) aluminium products; and (iv) other products, which comprise cable accessories. The Group's portfolio of finished wires and cable products comprises classic and special products. Apart from finished wires and cables, the Group also produce semi-finished wires comprising aluminium rods and bare copper wires to maximise the Group's market exposure and enlarge its market share.

During the year ended 31 December 2021 (the "**Year**") under review, the Group continued to engage in the manufacturing and sales of wires and cables and continued to serve a large number of customers, they are mainly power companies, manufacturing enterprises, construction and renovation companies as well as trading companies which purchase products from the Group for onward sale on their own accounts.

Since the outbreak of COVID-19 pandemic (the "**Pandemic**") in early 2020, the business environment in China has been adversely affected. The Group recorded a loss of approximately RMB26.5 million for the year ended 31 December 2021, as compared with the net profit of approximately RMB2.8 million recorded by the Group for the year ended 31 December 2020. For the details of the fluctuation of financial figures, please refer to the section headed "Financial Review" below.

On 10 July 2020 (the "**Listing Date**"), the shares of the Company (the "**Share(s)**") were successfully listed on GEM of the Stock Exchange (the "**Listing**"). For further details of our Group's business objectives, strategies and implementation plans, please refer to the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 24 June 2020 (the "**Prospectus**") and the paragraph headed "Use of Net Proceeds from the Listing" under "Management Discussion and Analysis" section in this report.

## FUTURE PROSPECTS

On 17 June 2021, the Group has successfully allotted and issued 120,000,000 shares under general mandate to Mr. Fu Chuanrong as subscriber, who was an independent third party to the Company, with net proceeds of approximately HK\$8.9 million. The proceeds has been used to acquire 70% of the equity interest in 雅安寶盛金屬材料有限公司 (Yaan Baosheng Metal Material Company Limited\*) ("**Yaan Baosheng**"), which engages in processing of aluminum cast-rolled coil and aluminum plate manufacturing of foil. Its products mainly include aluminum strip, preroll coating, diamond plate, presensitised alloy plate and thick foil coil, etc. (the "**Acquisition**").

The Directors believe that the Acquisition will enable the Group to expand upstream business, provide a more stable source of raw materials in terms of quantity and price and reduce the production cost and increase the profit margin of the Group in the long run.

For details, please refer to the announcements of the Company dated 27 May 2021 and 17 June 2021.

Benefiting from the Western Development Strategy (《西部大開發戰略》), Sichuan Province has long been acting an important role in the economic development of Southwest China. The development of multiple industries such as power generation, infrastructure construction, communication and petrochemical has created a strong demand for wire and cable products. The Guangyuan government has enacted policies for actively developing aluminium industry. The Company is closely monitoring the process and will seize the opportunity arising out of the government policy to drive the Company's growth. Meanwhile, our Group is looking for business opportunities to expand our influence in Southwest China and reduce regional concentration which may include expansion into other segments within aluminium industry as well as geographical expansion that may add value to our operation. The Group is evaluating various opportunities and will notify investors and shareholders according to relevant rules and regulations once any of these opportunities are materialised.

## FINANCIAL REVIEW

### Revenue

The follow table sets forth the breakdown of our revenue derived from our major operating subsidiaries by key product types after elimination of intra-group transactions during the review periods:

For the year ended 31 December	Revenue		Gross profit (loss)		Gross profit (loss) margin	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2021 %	2020 %
Classic finished wires and cables						
Copper wires and cables	39,159	41,805	1,216	5,873	3.1	14.0
Aluminium wires and cables	100,990	176,417	4,327	15,497	4.3	8.8
Special finished wires and cables						
Copper wires and cables	—	4,909	—	1,381	—	28.1
Aluminium wires and cables	53,618	54,317	6,871	8,226	12.8	15.1
Semi-finished wires						
Bare copper wires	146,547	116,942	1,284	1,812	0.9	1.5
Aluminium rods	44,687	121,014	131	3,581	0.3	3.0
Cast-rolled coil	159,180	—	(7,798)	—	(4.9)	—
Aluminium products	—	2,230	—	2	—	0.1
Others	208	525	25	84	12.0	16.0
	<b>544,389</b>	518,159	<b>6,056</b>	36,456	<b>1.1</b>	7.0

During the year ended 31 December 2021, the Group generated its revenue mainly from the manufacturing and sales of wires and cables, sales of aluminium products and cast-rolled coil in the PRC. The Group recorded a turnover of approximately RMB544.4 million for the year ended 31 December 2021, representing an increase of approximately 5.1% as compared with that in 2020. The increase in revenue was mainly due to contribution from our new product, cast-rolled coil, of approximately RMB159.2 million from our new subsidiary, Yaan Baosheng.

### Cost of sales

During the year ended 31 December 2021, the cost of sales at the Group mainly consists of (i) raw materials costs, (ii) aluminium products costs, and (iii) finished products from sub-contractors and depreciation and overhead. Cost of sales increased from RMB481.7 million for the year ended 31 December 2020 to RMB538.3 million for the year ended 31 December 2021, representing an increase of RMB56.6 million, or 11.8%. The increase of cost of sales was due to the continuous inflation in the average copper and aluminium prices in the market for the year ended 31 December 2021.

### Gross profit and gross profit margin

For the year ended 31 December 2020 and 2021, our gross profit amounted to RMB36.5 million and RMB6.1 million, respectively, with a gross profit margin of 7.0% and 1.1%, respectively. The decrease in gross profit margin during the Year under review was mainly due to (i) the inflation of materials mentioned above and (ii) gross loss of approximately RMB7.8 million is recorded from the new product, cast-rolled coil, for the year ended 31 December 2021.

### Other income and gains

Other income and gains increased from approximately RMB8.2 million for the year ended 31 December 2020 to approximately RMB15.0 million for the year ended 31 December 2021. The increase is mainly due to the increase of the government grants of approximately RMB4.8 million in relation to the support of the Group's operations, purchase of plant and machinery, the reward of the employment of disabled people in the PRC and enjoying a value-added tax subsidy of 30% on products and labour services for comprehensive utilization of resources.

### Selling and distribution expenses

The Group's selling and distribution expenses mainly consist of (i) transportation expenses, (ii) staff wages and benefits, and (iii) entertainment and travel expenses.

Selling and distribution expenses of the Group decreased by RMB1.5 million or 25.1% for the year ended 31 December 2021, which was due to the reduction of travel activities of the sales team under the Pandemic.

### Administrative and other expenses

The Group's administrative and other expenses mainly consist of (i) staff wages and benefits, (ii) depreciation of property, plant and equipment, (iii) legal and professional fees, and (iv) entertainment and travelling expenses.

Administrative and other expenses of the Group increased from RMB18.6 million for the year ended 31 December 2020 to RMB29.7 million for the year ended 31 December 2021, representing an increase of RMB11.2 million, or 60.0%. The increase was mainly due to (i) one-off mediation cost of approximately RMB3.8 million; (ii) the increase in professional fees of approximately RMB2.5 million after the Listing; and (iii) the increase of staff cost of approximately RMB2.9 million.

### Finance costs

Finance costs of the Group had increased from approximately RMB9.4 million for the year ended 31 December 2020 to approximately RMB11.7 million for the year ended 31 December 2021. The increase in amount was mainly attributable to the increase in the average utilisation of borrowings during the year ended 31 December 2021.

### Income tax credit

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising the Group domicile or operate. The Group's income tax credit increased by approximately RMB4.0 million from approximately RMB0.1 million for the year ended 31 December 2020 to approximately RMB4.1 million for the year ended 31 December 2021. The increase in income tax credit was due to the recognition of more credit from deferred tax derived from tax loss during the year ended 31 December 2021.

### (Loss)/profit for the year

As a result of the foregoing, the Group recorded a loss attributable to the owners of the Company amounted to approximately RMB25.2 million, as compared to the profit attributable to owners of the Company of approximately RMB1.9 million in the corresponding period in 2020. The Directors consider that the increase in net loss was mainly attributable to (1) the decrease in gross profit of approximately RMB30.4 million and the decrease in gross profit margin due to the increase in the cost of raw materials; (2) the increase of allowance for expected credit loss on trade and other receivables of approximately RMB2.9 million; (3) the increase of impairment losses on property, plant and machinery of approximately RMB2.6 million; and (4) the increase of staff cost of approximately RMB2.9 million for the year ended 31 December 2021 as compared to the corresponding period in 2020. The net loss margin for the year is approximately 4.9% as compared to the net profit margin of approximately 0.5% for the year ended 31 December 2020.

## MANAGEMENT DISCUSSION AND ANALYSIS

### DIVIDEND

The Directors resolved not to recommend the payment of any final dividend for the year ended 31 December 2021.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group financed its operations primarily through a combination of cash generated from its operations, borrowings and equity from shareholder. The Group's principal uses of cash have been, and are expected to continue to be, payment for procurement of raw materials and inventories, purchase of property, plant and equipment and repayment of borrowings and interest. As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB6.7 million and (31 December 2020: RMB12.1 million).

As at 31 December 2021, the total equity attributable to equity holders of the Company amounted to approximately RMB133.3 million (31 December 2020: approximately RMB151.0 million).

Gearing ratio is calculated based on the total loans and borrowings (including amounts due to a shareholder and non-controlling interest) divided by total equity as at the year-end date and expressed as a percentage. The gearing ratio of the Group as at 31 December 2021 was 112.0% (31 December 2020: 57.8%). During the year ended 31 December 2021, the Group did not employ any financial instrument for hedging purpose and did not enter into any hedging transactions.

### CHARGES ON GROUP'S ASSETS

As at 31 December 2021, the following assets was pledged to secure the Group's bank and other borrowings:

- (a) Buildings with an aggregate net carrying amount of approximately RMB46,685,000 as at 31 December 2021 (31 December 2020: RMB48,650,000);
- (b) Land use rights with an aggregate net carrying amount of approximately RMB6,460,000 as at 31 December 2021 (31 December 2020: RMB6,647,000);
- (c) Plant and machinery with an aggregate net carrying amount of approximately RMB23,523,000 as at 31 December 2021 (31 December 2020: RMB3,418,000); and
- (d) Trade receivables of RMB nil as at 31 December 2021 (31 December 2020: RMB20,965,000).

### CAPITAL COMMITMENT

The Group had capital commitments of approximately RMB686,000 as at 31 December 2021 (31 December 2020: nil).

### CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2021.

### PRINCIPAL RISKS AND UNCERTAINTIES

The following are the principal risks and uncertainties faced by the Group, which may materially and adversely affect the Group's business, financial condition or results of operations:

- (i) The Group's business and operation may be seriously affected by the Pandemic or public health incident, which may cause lockdown and suspension of work in the PRC.
- (ii) The Group's operations could be materially affected by the volatility in the prices of our major raw materials and we may not be able to secure our principal raw materials on commercially acceptable terms, or at all.
- (iii) The Group's revenue is mainly derived from sales to customers without long-term contracts, and the demand for the Group's products is significantly dependent on our customers' business and the performance of their respective industry or market.
- (iv) The PRC preferential tax treatment and government subsidies the Group currently enjoy may be unfavourably changed or discontinued.
- (v) The Group is exposed to the credit risk of our customers and operate in a relatively thin margin.

For other risks and uncertainties facing the Group, please refer to the section headed "Risks Factors" in the Prospectus.

### FUNDING AND TREASURY AND FOREIGN EXCHANGE RISK

The Group adopts a provident funding and treasury policy. The Group has no significant foreign currency risk as its business transactions, majority of its recognised assets and liabilities are principally denominated in RMB, its functional currency. The Group did not have any hedge instruments nor enter into any hedging transactions to hedge against other foreign currency transactions during the year ended 31 December 2021. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure shared the needs arise.

### SEGMENT INFORMATION

The Group principally operates in one business segment, which is manufacturing and sale of wires and cables and manufacturing and sale of aluminum products in the PRC.

## MANAGEMENT DISCUSSION AND ANALYSIS

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group employed a total of 221 full-time employees (31 December 2020: 212 full-time employees). Total employee benefit expenses for the year ended 31 December 2021 and the year ended 31 December 2020 were approximately RMB12.2 million and approximately RMB10.9 million respectively. The remuneration package for the Group's employees includes salaries, commission, bonus and allowances. Remuneration is determined with reference to market term and the performance, qualification and experience of individual employee, which would be received by the Group regularly. The Group would provide induction trainings to new employees and regular trainings to existing employees to update their knowledge and skills.

### SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES AND PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

On 27 May 2021, the Group acquired 70% of the equity interest in 雅安寶盛金屬材料有限公司 (Yaan Baosheng Metal Material Company Limited) (the "Acquisition"). For further information in relation to the acquisition, please refer to the announcements of the Company dated 27 May 2021 and 17 June 2021.

Save for the Acquisition, there was no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2021, and there was no plan for material investment or capital assets as at the date of this report.

### USE OF NET PROCEEDS FROM THE LISTING

The net proceeds (the "Net Proceeds") from the Listing, after deducting listing-related expenses, were approximately HK\$20.6 million (equivalent to approximately RMB18.6 million). The Net Proceeds raised by the Group have been fully utilised during the year ended 31 December 2021 in the manner below:

	Approximately percentage of the total amount	Amount of net proceeds allocated HK\$'000	Amount utilised up to 31 December 2021 HK\$'000	Amount unutilised up to 31 December 2021
Expanding our existing production facilities and production plant	55.0%	11,330	11,330	—
Repaying part of our existing loan	25.0%	5,150	5,150	—
Funding the upfront costs for the commercial production of the Shuneng Plant	10.0%	2,060	2,060	—
Used for general working capital of our Group	10.0%	2,060	2,060	—
	100.0%	20,600	20,600	—

**USE OF PROCEEDS FROM THE SUBSCRIPTION**

On 27 May 2021, the Company entered into the subscription agreement (the “**Subscription Agreement**”) with Mr. Fu Choanrong as the subscriber, who was a PRC individual and an independent third party of the Company and its connected persons, for allotting and issuing under general mandate, a total of 120,000,000 ordinary shares (the “**Subscription Shares**”) at the subscription price of HK\$0.075 per Subscription Share. The gross and net proceeds of the subscription are HK\$9.0 million and approximately HK\$8.9 million. The Subscription Shares are ordinary shares of the Company and have a nominal value of HK\$1,200,000 in aggregate. The net issue price of the Subscription Shares is HK\$0.074 per Subscription Share. On the date of the Subscription Agreement, the closing price of the shares was HK\$0.075, representing a price equal to the subscription price of the Subscription Shares. The reason for entering into the Subscription Agreement was to raise funds for the acquisition of 70% equity interest in Yaan Baosheng. For details of the Subscription Agreement, please refer to the announcement of the Company dated 27 May 2021. Details of the application of the net proceeds of the subscription are as follows:

<b>Intended Use</b>	<b>Amount of net proceeds allocated</b>	<b>Amount of net proceeds utilised during 31 December 2021</b>	<b>Amount of net proceeds unutilised as at 31 December 2021</b>
As the consideration for the acquisition of 70% of the equity interest in Yaan Baosheng	HK\$8.9 million	HK\$8.9 million	—

As at 31 December 2021, the entire amount of the net proceeds from the subscription was fully utilised in the manner as disclosed in the announcement of the Company dated 27 May 2021.

# CORPORATE GOVERNANCE REPORT

The Company and the board of directors of the Company (the “**Board**”) recognise the importance of good corporate governance in management and internal control procedures so as to achieve accountability.

The Group’s corporate governance practices are based on the principles and the code provisions in the Corporate Governance Code (the “**CG Code**”) as set out in the Appendix 15 to the GEM Listing Rules. The references to the paragraph number of the CG code in this report have adopted the amendments to the CG Code which were effective on 1 January 2022. During the year ended 31 December 2021 and up to the date of this report, the Company has complied with all the applicable code provisions of the CG Code contained in Appendix 15 to the GEM Listing Rules except for code provision C.2.1 of the CG Code which requires the separation of the roles of chief executive officer and the chairman by different individuals.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors in respect of the shares of the Company (the “**Model Code**”). The Company has made specific enquiries to all the Directors, all of the Directors have confirmed that they have fully complied with the required standard of dealings set out in the Code of Conduct since the Listing Date and up to the date of this report. No incident of non-compliance was noted by the Company since the Listing Date and up to the date of this report.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision C.2.1, the role of the Chairman and chief executive officer of the Company should be separate by different individuals. Currently, Mr. Dang Fei is the chairman and the chief executive officer of the Company. The Board is of the view that Mr. Dang Fei is carrying out both roles can bring strong and consistent leadership for the Group and at the opinion that such arrangement will be beneficial to the Company and its business.

The Board will continue to review and consider splitting the roles of chairman and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole. The Directors are aware that the Company is expected to comply with the CG Code. Save as disclosed above, the Company will continue to comply with the CG Code to protect the best interests of the shareholders of the Company.

From the Listing Date to the date of this report (both dates inclusive), the Board comprised four executive Directors, namely Mr. Dang Fei, Mr. Wang Xiaozhong, Ms. Luo Xi and Mr. Luo Qiang, one non-executive Director, namely Mr. Wang Haichen and three independent non-executive Directors (as set out under the paragraph headed “Independence of independent non-executive Directors” of this report).

The overall management of the Company’s business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors should make decisions objectively in the interests of the Company. The day-to-day management, administration and operation of the Company are delegated to the executive Directors and senior management (“**Senior Management**”). The delegated functions and work tasks are periodically reviewed. The Board has the full support from the executive Directors and the Senior Management of the Company to discharge its responsibilities.

Directors and Senior Management are set out in the section headed with “Directors and Senior Management” of this report. Save as disclosed under the paragraph headed “Chairman and Chief Executive Officer” and in the section headed “Directors and Senior Management” of this report, each of the Board members has no financial, business, family or other material or relevant relationships with each other.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has met the requirements of rules 5.05 and 5.05A of the GEM Listing Rules of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with two of them possessing appropriate professional qualifications.

The Company has received confirmations of independence from Dr. Zuo Xinzhang, Mr. Chan Oi Fat and Ms. Hu Xiaomin, being all the independent non-executive Directors, in accordance with rule 5.09 of the GEM Listing Rules. The Board has assessed their independence and concluded that all independent non-executive Directors are independent.

## TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

All independent non-executive Directors are appointed for a term of three years.

Each of such appointments is subject to the rotation and retirement provisions in the articles of association of the Company (the “**Articles of Association**”).

## BOARD COMMITTEES

The Board has established three committees, namely the audit committee (the “**Audit Committee**”), remuneration committee (the “**Remuneration Committee**”) and nomination committee (the “**Nomination Committee**”) (collectively, the “**Board Committees**”). Each committee has its own written terms of reference and is responsible to make recommendations to the Board. All of the Board Committees are allocated with sufficient resources to discharge their duties.

### Audit committee

The Company established the Audit Committee with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and paragraph D.3.3 of the CG Code pursuant to a resolution of our Directors passed on 10 June 2020. The primary duties of the Audit Committee are, among others, to make recommendation to our Board on the appointment, reappointment and removal of external auditor, monitor integrity of our financial statements, review significant financial reporting judgements contained in them, oversee our financial reporting, internal control, risk management systems and audit process and perform other duties and responsibilities assigned by our Board.

At present, Audit Committee comprises of the Company of Mr. Chan Oi Fat, Dr. Zuo Xinzhang and Ms. Hu Xiaomin, all being our independent non-executive Directors. Mr. Chan Oi Fat is the chairperson of our audit committee.

During the year ended 31 December 2021, the Audit Committee had held four meetings. A summary of the work performed by the Audit Committee is listed below:

- reviewed the Group’s annual financial statements for the year ended 31 December 2020, quarterly financial statements for the three months ended 31 March 2021 and the nine months ended 30 September 2021 and interim financial statements for the six months ended 30 June 2021, the related result announcements, documents and other matters or issues raised by the external auditor of the Company;
- reviewed the terms of engagement of the external auditor of the Company (including the annual audit plan, scope of work and fee payable to external auditor);
- recommended to the Board, for the approval by shareholders, of the re-appointment of the external auditor; and

## CORPORATE GOVERNANCE REPORT

- discussed and confirmed with the management the effectiveness of the Group's financial reporting process, risk management and internal control systems covering all material controls, including financial, operational and compliance controls. In particular, the review has considered the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal audit and financial reporting functions, and their training programmes and budget.

The Company's annual results and annual report for the year ended 31 December 2021 have been reviewed by the Audit Committee, which opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

### Remuneration committee

The Company established the Remuneration Committee on 10 June 2020 with written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and paragraph E.1.2 of the CG Code. The primary duties of our Remuneration Committee are, among others, to review and approve the management's remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors or their associates is involved in deciding their own remuneration.

At present, our Remuneration Committee comprises Ms. Hu Xiaomin, Dr. Zuo Xinzhang and Mr. Chan Oi Fat, all being our independent non-executive Directors. Ms. Hu Xiaomin is the chairperson of our remuneration committee.

Attendance of each Remuneration Committee member in Remuneration Committee meeting is set out under the paragraph headed "Board meetings and general meetings" of this report.

During the year ended 31 December 2021, Remuneration Committee has assessed the performance of executive Directors and reviewed the remuneration and compensation package of the Directors and Senior Management with reference to, among other things, the market level of salaries paid by comparable companies, the respective responsibilities of the Directors and the Senior Management and the performance of the Group, and approved that the remuneration and compensation package remained unchanged, and the proposal to pay performance bonus to certain Directors based on the performance of the Group in 2021.

Details of the Directors' remuneration are set out in note 11 to the consolidated financial statements.

### REMUNERATION OF SENIOR MANAGEMENT

Pursuant to code provision E.1.5 of the CG Code, the remuneration paid to the members of the Senior Management by band for the year ended 31 December 2021 is set out below:

<b>Remuneration band (RMB)</b>	<b>Number of person(s)</b>
Nil to 1,000,000	7
1,000,001 to 1,500,000	—
1,500,001 to 2,000,000	—
2,000,001 to 2,500,000	—

### Nomination committee

The Company established the Nomination Committee on 10 June 2020 with written terms of reference in compliance with paragraph B.3.1 of the CG Code. The primary duties of the Nomination Committee are, among others, to review the structure, size, composition and diversity of our Board, and select or make recommendations on the selection of individuals nominated for directorships.

At present, the Nomination Committee comprises Mr. Dang Fei, Dr. Zuo Xinzhang, Mr. Chan Oi Fat and Ms. Hu Xiaomin. Mr. Dang Fei is the chairperson of our nomination committee.

Attendance of each Nomination Committee member in Nomination Committee meeting is set out under the paragraph headed “Board meetings and general meetings” of this report.

### Nomination policy

During the year ended 31 December 2021, the Nomination Committee held a meeting, considered and recommended the nomination policy to the Board. The Board thus approved and adopted the nomination policy, which establishes written guidelines to the Nomination Committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors.

The Board, through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills critical to the Group’s business to enable the Board to make sound and well considered decisions. Collectively, they have competencies in areas which are relevant and valuable to the Group.

### Nomination Criteria

In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

- (i) the candidate’s character and integrity;
- (ii) the candidate’s qualifications including professional qualifications, skills, knowledge and experience, and diversity aspects under the Board Diversity Policy (as defined below) that are relevant to the Company’s business and corporate strategy;
- (iii) any measurable objectives adopted for achieving diversity on the Board;
- (iv) for independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules;
- (v) any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- (vi) willingness and ability of the candidate to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- (vii) such other perspectives that are appropriate to the Company’s business and succession plan and where applicable may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

### Nomination Procedures

The Board has put in place the following director nomination procedures:

#### (a) **Appointment of New and Replacement Directors**

- (i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.
- (ii) Upon compilation and interview of the list of potential candidates, the relevant Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

#### (b) **Re-election of Director at General Meeting**

Retiring Directors are eligible for nomination by the Board to stand for re-election at the general meeting according to the Articles of Association of the Company.

The Nomination Committee and the Board should review the overall contribution, participation and performance of the retiring Director and the Board should then make recommendation to the Shareholders in respect of the proposed re-election of Director at the general meeting.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Except for the deviation from provision C.2.1 of the CG Code, our corporate governance practices are expected to comply with the CG Code. Provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Dang Fei has been managing our Group's business and overall strategic planning since its establishment. Our Directors believe that the vesting of the roles of chairman of our Board and chief executive officer in Mr. Dang Fei is beneficial to the business operations and management of our Group as it provides a strong and consistent leadership to our Group and that the current management has been effective in the development of our Group and implementation of business strategies under the leadership of Mr. Dang Fei. In allowing the two roles to be vested in the same person, our Directors believe both positions require in-depth knowledge and considerable experience of our Group's business and Mr. Dang Fei is the most suitable person to occupy both positions for effective management of our Group. Accordingly, our Company has not segregated the roles of the chairman of our Board and chief executive officer as required by Code Provision C.2.1 of the CG Code.

### Board Diversity Policy

We have adopted a board diversity policy (the "**Board Diversity Policy**") on 10 June 2020 pursuant to the requirement of the CG Code, which sets out the approach of which our Board could achieve a higher level of diversity. We recognise the benefits of having a diversified Board. In summary, our Board Diversity sets out that when considering the nomination and appointment of a Director, with the assistance of our nomination committee, our Board would consider a number of factors, including but not limited to the skills, knowledge, professional experience and qualifications, cultural and educational background, age, gender and diversity of perspective that the candidate is expected to bring to our Board and what would be the candidate's potential contributions, in order to better serve the needs and development of our Company. Our Board Diversity Policy also seeks to attract, retain and motivate our Directors and other staff from the widest pool of available talent. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard to the benefits of diversity on our Board.

During the year ended 31 December 2021, the Nomination Committee reviewed the Board Diversity Policy and reviewed the independence of each of the independent non-executive Directors.

## BOARD MEETINGS AND GENERAL MEETING

Pursuant to code provision C.5.1 of the CG Code, the Board meets regularly and Board meetings would be held at least four times a year. Additional meetings would be arranged if and when required. Board members are provided with all agenda and adequate information for their review within reasonable time before the meetings. After each meeting, draft minutes are circulated to all Directors for comments before confirmation. Minutes of Board meetings and meetings of board committees are kept by the company secretary and are available for inspection by the Directors at all times. Each Director is entitled to seek independent professional advice in appropriate circumstances at the expense of the Company. Directors may participate either in person or through electronic means of communications. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions.

The Board is regularly provided with brief reports containing balanced and comprehensive evaluation on the Group's performance, status and prospects to keep it abreast of the Group's affairs and to facilitate the Directors' performance of their obligations under the relevant requirements of the GEM Listing Rules.

### Directors' attendance records at meetings of the Board and the Board Committees and general meeting

During the year ended 31 December 2021, six Board meetings were held and the attendance record of each Director is set out in the table below:

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee Meetings	Annual General Meeting held on 28 May 2021
<b>Executive Directors</b>					
Mr. Dang Fei	6/6	N/A	1/1	N/A	1/1
Mr. Wang Xiaozhong	6/6	N/A	N/A	N/A	1/1
Ms. Luo Xi	6/6	N/A	N/A	N/A	1/1
Mr. Luo Qiang	6/6	N/A	N/A	N/A	1/1
<b>Non-executive Director</b>					
Mr. Wang Haichen	6/6	N/A	N/A	N/A	1/1
<b>Independent non-executive Directors</b>					
Dr. Zuo Xinzhang	6/6	4/4	1/1	1/1	1/1
Mr. Chan Oi Fat	6/6	4/4	1/1	1/1	1/1
Ms. Hu Xiaomin	6/6	4/4	1/1	1/1	1/1

### Dividend policy

The Company has on 10 June 2020 adopted a dividend policy (the "Dividend Policy") in compliance with F.1.1 of the CG Code, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company. Summary of the Dividend Policy is set out below:

## CORPORATE GOVERNANCE REPORT

- (i) the Dividend Policy aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company and also take into account the following factors of the Group when considering the declaration and payment of dividends:
- financial results;
  - cash flow situation;
  - balance of distributable reserves;
  - business conditions and strategies;
  - future operations and earnings;
  - capital requirements and expenditure plans;
  - interests of shareholders;
  - any restrictions on the payment of dividends; and
  - any other factors that the Board may consider relevant;
- (ii) depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:
- interim dividend;
  - final dividend;
  - special dividend; and
  - any distribution of net profits that the Board may deem appropriate;
- (iii) any final dividend for a financial year will be subject to shareholders' approval;
- (iv) the Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate; and
- (v) any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Company's Articles of Association.

The Board will review the Dividend Policy as appropriate from time to time.

### TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

For the year ended 31 December 2021, all Directors had participated in continuous professional development with respect to directors' duties, relevant programmes and seminars or had perused reading materials and updated information in relation to business and industrial development and are aware of the requirement under code provision C.1.4 of the CG Code regarding continuous professional development. The Directors had provided the relevant training records to the Company.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her roles, functions, duties and responsibilities under the GEM Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group.

## COMPLIANCE ADVISER

In accordance with rule 6A.19 of the GEM Listing Rules, the Company has appointed Alliance Capital Partners Limited as its compliance adviser (the “**Compliance Adviser**”). Pursuant to rule 6A.23 of the GEM Listing Rules, the Company will consult with and seek advice from the Compliance Adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where the Company proposes to use the proceeds from the share offer of the Company in a manner different from that detailed in the Prospectus dated 24 June 2020 or where the business activities, developments or results deviate from any forecast, estimate, or other information in the Prospectus; and
- (iv) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of the Company’s shares, the possible development of a false market in its shares, or any other matters pursuant to rule 17.11 of the GEM Listing Rules.

The term of appointment of the Compliance Adviser complies with rule 18.03 of the GEM Listing Rules. Except for the compliance adviser agreement and a financial adviser agreement entered into between the Company and the Compliance Adviser, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Company pursuant to rule 6A.32 of the GEM Listing Rules.

## COMPANY SECRETARY

Company Secretary supports the Board by ensuring good information flow within the Board and that the Board policy and procedures are followed. The Company Secretary is responsible for advising the Board on corporate governance matters and facilitating induction and professional development of the Directors. All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws, rules and regulations are followed.

Mr. Woo Yuen Ping aged 36, was appointed as the Company Secretary of the Company on 22 May 2019. He has complied with all requirements relating to qualifications, experiences and training under the GEM Listing Rules. During the year ended 31 December 2021, Mr. Woo had attended at least 15 hours of relevant professional training pursuant to Rule 5.15 of the GEM Listing Rules.

Mr. Woo graduated with a bachelor’s degree of business administration in accountancy from City University of Hong Kong in November 2008. Mr. Woo was admitted in January 2012 and is currently a practising member of Hong Kong Institute of Certified Public Accountants. He has been a member of CPA Australia since April 2019.

Mr. Woo has over 10 years of experience in accounting, auditing and company secretarial fields gaining from accounting firms. Prior to joining the Group in May 2019, Mr. Woo worked at RSM Nelson Wheeler and left as an audit assistant manager from August 2008 to September 2014. From December 2015 to February 2019, he served as a director of Global Vision CPA Limited. Mr. Woo has been the company secretary of Dadi Education Holdings Limited, a company listed on the Stock Exchange (stock code: 8417) since March 2019 and the company secretary of Affluent Foundation Holdings Limited, a company listed on the Stock Exchange (stock code: 1757) since April 2019.

## COMPLIANCE OFFICER

Mr. Wang Xiaozhong is the compliance officer of the Company. Please refer to the section headed “Directors and Senior Management” of this report for Mr. Wang’s biography.

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements of the Group that gives a true and fair view of the state of affairs of the Group. The management provides information and explanation to the Board to enable it to make informed decisions in this connection.

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the Consolidated Financial Statements for the year ended 31 December 2021 is set out in the section headed “Independent Auditor’s Report” of this report.

## RISK MANAGEMENT AND INTERNAL CONTROLS

One of the major functions of the Board is to maintain an adequate risk management and internal control systems to safeguard the Company’s shareholders’ investments and the Group’s assets, and reviewing their effectiveness annually through the Audit Committee. The Audit Committee reports to the Board on any material issues and makes recommendations to the Board.

Policies and procedures have been designed to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with applicable law, rules and regulations. The policies and procedures provide a reasonable assurance that material misstatements or losses are prevented, potential interruption of the Group’s management system is detected, and risks existing in the course of arriving at the Group’s objectives are properly managed.

Given the relatively simple corporate and operation structure, the Group currently does not have an internal audit function.

The Group has in place an effective internal control system which encompasses sound control environment, appropriate segregation of duties, well defined policies and procedures, close monitoring and is reviewed and enhanced by the management at regular intervals.

## Going Concern Assessment

As at 31 December 2021 and up to the date of this report, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company’s ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going-concern basis.

## INSURANCE ON DIRECTORS’ AND OFFICERS’ LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Directors and the senior management of the Company. The Board reviews the insurance coverage on an annual basis.

## REMUNERATION TO THE COMPANY'S AUDITOR

For the year ended 31 December 2021, the total remuneration paid or payable to the Company's auditor, BDO Limited, for audit and audit related services amounted were as follows:

Nature of services	Amount RMB'000
Audit services	750

*Note:* The amount represents the total fee for the entire professional services as the reporting accountants for the Listing of shares. Such professional fees have been recognised in varies accounting period.

## SHAREHOLDERS' RIGHTS

The Company communicates to its shareholders through announcements and quarterly, interim and annual reports published on its website at [www.saftower.cn](http://www.saftower.cn). Shareholders may put enquiries to the Board through its website at [www.saftower.cn](http://www.saftower.cn) or in writing sent to the principal office of the Company at Unit D, 17/F., 8 Hart Avenue, Tsim Sha Tsui, Kowloon, Hong Kong. The Directors, company secretary or other appropriate members of senior management of the Company respond to enquiries from shareholders promptly.

The annual general meeting (the "AGM") is an opportunity for the Board and the Shareholders to communicate directly and exchange views concerning the affairs and overall performance of the Group, and its future developments. The AGM of the Company is being scheduled on 27 May 2022, the notice of which shall be sent to the Shareholders in accordance with the Articles of Association of the Company, the GEM Listing Rules and other applicable laws and regulations.

### Right to convene extraordinary general meeting

The following procedures for Shareholders to convene an extraordinary general meeting are subject to the Articles (as amended from time to time), and the applicable legislation and regulation, in particular the GEM Listing Rules (as amended from time to time):

1. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings.
2. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.
3. Such meeting shall be held within two months after the deposit of such requisition.
4. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitioner(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

## CONSTITUTIONAL DOCUMENTS

The Company adopted its current Memorandum and Articles of Association on the Listing Date to comply with the relevant provisions of the GEM Listing Rules. There have been no changes since its adoption to the date of this report.

A copy of the Memorandum and Articles of Association of the Company is posted on the designated website of GEM of the Stock Exchange and the website of the Company.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to contributing to the sustainability of the environment and has implemented policies to minimise the impact on the environment from its business activities. The Group endeavors to refine the approach to addressing its environmental, social and ethical responsibilities along with improving its corporate governance in order to generate greater value for all stakeholders.

The “Environmental, Social and Governance Report” of the Company to be prepared in accordance with Appendix 20 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited will be published within five months after the financial year end.

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2021.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of wires and cables and sale of aluminium products in the People's Republic of China (the "PRC").

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap 622), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, are set out in the sections headed "Management Discussion and Analysis" and "Corporate Governance Report — Accountability and Audit — Risk Management and Internal Control" of this report, and the discussion on the Group's environmental policies and performance, compliance with relevant laws and regulations that have a significant impact on the Group, and the Group's key relationships with its employees, customers and suppliers are set out in the section headed "Environmental, Social and Governance Report" of this report. Those discussion and analysis form part of this directors' report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated financial statements on pages 44 to 119 of this report. The Directors resolved not to recommend the payment of any final dividend for the year ended 31 December 2021 (2020: nil).

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2021, the five largest customers in aggregate and the largest customer of the Group accounted for approximately 41.2% and 10.1% respectively of the Group's sales.

For the year ended 31 December 2021, the five largest suppliers in aggregate and the largest supplier of the Group accounted for approximately 56.8% and 21.0% respectively of the Group's purchases.

None of the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the issued shares of the Company) had any interest in any of these major customers or suppliers during the year ended 31 December 2021.

# DIRECTORS' REPORT

## DIRECTORS

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

### Executive Directors

Mr. Dang Fei (*Chairman and chief executive officer*)

Mr. Wang Xiaozhong

Ms. Luo Xi

Mr. Luo Qiang

### Non-executive Director

Mr. Wang Haichen

### Independent non-executive Directors

Dr. Zuo Xinzhang

Mr. Chan Oi Fat

Ms. Hu Xiaomin

## BIOGRAPHIES OF DIRECTORS

The biographical details of the Directors are disclosed in the section headed "Directors and Senior Management" on pages 34 to 39 of this report.

## DIRECTORS' SERVICE CONTRACTS

### Executive Directors

Each of our executive Directors has entered into a service agreement with our Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto giving at least three months' written notice of non-renewal before the expiry of the then existing term. No Director has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### Non-executive Director and independent non-executive Directors

Each of our non-executive Director and independent non-executive Directors has entered into a letter of appointment with our Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least one month's written notice of non-renewal before the expiry of the then existing term.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, the interests of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

### Long position in the Shares

Name of Director/ chief executive	Capacity/ Nature of interest	Number of Shares interested	Approximate percentage of interest
Mr. Dang Fei	Interest in controlled corporation ( <i>Note 1</i> ) Interest held jointly with another person ( <i>Note 2</i> )	351,280,000	38.18%
Mr. Wang Xiaozhong	Interest in controlled corporation ( <i>Note 3</i> )	99,760,000	10.84%
Ms. Luo Xi	Interest in controlled corporation ( <i>Note 4</i> )	8,510,000	0.93%

Notes:

1. The Shares were held by Red Fly Investment Limited ("**Red Fly**"). Red Fly is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun. By virtue of SFO, Mr. Dang Fei is deemed to be interested in the same number of Shares held by Red Fly.
2. Mr. Dang Fei and Mr. Dang Jun are parties acting in concert pursuant to an acting in concert agreement dated 4 July 2019. As such, Mr. Dang Fei and Mr. Dang Jun will together control 43.91% of the issued share capital of the Company.
3. The Shares were held by Xseven Investment Limited ("**Xseven Investment**"). Xseven Investment is owned as to 100% by Mr. Wang Xiaozhong. Under the SFO, Mr. Wang Xiaozhong is deemed to be interested in the same number of Shares held by Xseven Investment.
4. The Shares were held by Lockxy Investment Limited ("**Lockxy Investment**"). Lockxy Investment is owned as to 68% by Ms. Luo Xi. By virtue of SFO, Ms. Luo Xi is deemed to be interested in the same number of Shares held by Lockxy Investment.

Save as disclosed herein, as at 31 December 2021, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the date of this report, so far as is known to the Directors, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fell to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/ Nature of interest	Number of Shares interested (Long position)	Approximate percentage of interest
Red Fly	Beneficial owner (Note 1)	351,280,000	38.18%
Mr. Dang Jun	Interest held jointly with another person (Note 2)	351,280,000	38.18%
Ms. Li Li	Interest of spouse (Note 3)	351,280,000	38.18%
Mr. Fu Chuanrong	Beneficial owner	120,630,000	13.10%
Xseven Investment	Beneficial owner (Note 4)	99,760,000	10.84%
Ms. Gao Hong	Interest of spouse (Note 5)	99,760,000	10.84%

Notes:

1. The Shares were held by Red Fly. Red Fly is owned as to 80.79% by Mr. Dang Fei and 19.21% by Mr. Dang Jun.
2. Mr. Dang Fei and Mr. Dang Jun are parties acting in concert pursuant to an acting in concert agreement dated 4 July 2019. As such, Mr. Dang Fei and Mr. Dang Jun will together control 43.91% of the issued share capital of the Company.
3. Ms. Li Li is the spouse of Mr. Dang Jun. Under the SFO, Ms. Li Li is deemed to be interested in the same number of Shares held by Mr. Dang Jun.
4. The Shares were held by Xseven Investment. Xseven Investment is owned as to 100% by Mr. Wang Xiaozhong.
5. Ms. Gao Hong is the spouse of Mr. Wang Xiaozhong. Under the SFO, Ms. Gao Hong is deemed to be interested in the same number of Shares owned by Mr. Wang Xiaozhong.

Save as disclosed above, as at the date of this report, the Company had not been notified by any parties (not being a Director or the chief executive of the Company) who had interests or short positions in the Shares or underlying Shares, 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 required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

## EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

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

## COMPETING INTERESTS

The Directors were not aware of any business or interest of the controlling shareholders of the Company or the Directors and their respective close associates (as defined in the GEM Listing Rules) is interested in any business apart from the business operated by the Group which competes or is likely to compete, directly or indirectly, with the Group's business, or had any other conflict of interest with the Group, during the year ended 31 December 2021.

## SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "**Share Option Scheme**") on 10 June 2020 (the "**Effective Date**"), which will continue to be valid for 10 years. Under the Share Option Scheme, the Board may, at their absolute discretion, at any time within a period of ten years commencing from the Effective Date offer to grant to any eligible persons (as defined herein below), including employees, directors, consultants, suppliers, customers and shareholders of any member of the Group, options to subscribe for Shares.

The principal terms of the Share Option Scheme are summarised as follows:

1. The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentives or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest (the "**Invested Entity**").
2. Our Directors shall, in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:
  - (i) any employee (whether full time or part time, including our Directors (including any non-executive Director and independent non-executive Director)) of our Company, any of our subsidiaries (within the meaning of the Companies Ordinance) or any Invested Entity (an "**Eligible Employee**");
  - (ii) any supplier of goods or services to any member of our Group or any Invested Entity;
  - (iii) any customer of any member of our Group or any Invested Entity;
  - (iv) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
  - (v) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
  - (vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and
  - (vii) 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 our Group.

3. 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 scheme of our Group must not in aggregate exceed 10% of the total number of Shares of the total number of Shares in issue on the Listing Date. As at the date of this annual report, the number of issued shares of the Company is 920,000,000 shares and the total number of shares to be issued under the Share Option Scheme is 80,000,000 shares, representing less than 10% of the issued share capital of the Company, if all the option under the Share Option Scheme have been granted to and duly exercised by Eligible Person. The maximum entitlement each Participant shall have shall be subject to the requirements under the GEM Listing Rules.
4. An offer under the Share Option Scheme may remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a business day, on which the offer is made. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.
5. The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:
  - (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of our Shares on the offer date;
  - (ii) the average closing price of our Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and
  - (iii) the nominal value of a Share.
6. Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank equally in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised.
7. If the grantee is an Eligible Employee and in the event of his ceasing to be an Eligible Employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute), such option (to the extent not already exercised) shall lapse automatically and shall not in any event be exercisable on or after the date of cessation to be an Eligible Employee.
8. Subject to the provisions in the Share Option Scheme and the GEM Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

9. Our Company by an ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provision of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.
10. An option shall be personal to the grantee and shall not be transferable or assignable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a grantee shall entitle our Company to cancel any option granted to such grantee to the extent not already exercised.

### EVENTS AFTER THE REPORTING PERIOD

There is no significant event occurred subsequent to 31 December 2021 and up to the date of this report.

### DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Apart from the material related party transactions set out in Note 38 to the consolidated financial statements, there was no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director (has the meaning given by section 486 of the Companies Ordinance of Hong Kong) had a material interest, whether directly or indirectly, subsisted at 31 December 2021 or at any time during the reporting period.

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

There was no other connected transactions or continuing connected transactions during the year.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

Details of other material related party transactions are set out in Note 38 to the consolidated financial statements, which constituted connected transactions or continuing connected transactions under Chapter 20 of the GEM Listing Rules.

Save as disclosed above, there is no contract of significance between the Group and a controlling shareholder of the Company (as defined in the GEM Listing Rules) or any of its subsidiaries, including for the provision of services to the Group.

## DIRECTORS' REPORT

### PRE-EMPTIVE RIGHTS

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

### PERMITTED INDEMNITY PROVISION

A directors' and officers' liability insurance is currently in place to protect the Directors against potential costs and liabilities arising from claims brought by third parties against them.

### NON-COMPETITION UNDERTAKINGS

Each of the covenantors has provided to the Company a written confirmation in respect of the full compliance with the Non-competition Undertakings for the year ended 31 December 2021.

### INTERESTS OF THE COMPLIANCE ADVISER

Save for the compliance adviser agreement and a financial adviser agreement entered into between the Company and Alliance Capital Partners Limited, none of Alliance Capital Partners Limited, its directors, employees or associates had any interest in relation to the Group as notified to the Company pursuant to rule 6A.32 of the GEM Listing Rules during the year ended 31 December 2021 and up to the date of this report.

### CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors confirmation of independence pursuant to rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors are independent.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group had been entered into or existed during the year ended 31 December 2021.

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

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

### SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in Note 32 to the consolidated financial statements.

### RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2021 are set out in the consolidated statement of changes in equity on page 47 and Note 33 to the consolidated financial statements respectively.

### DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the shareholders of the Company as at 31 December 2021 amounted to approximately RMB125,065,000.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules during the year ended 31 December 2021 and up to the date of this report.

### ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company is scheduled to be held on 27 May 2022 ("**2022 AGM**"). For determining the entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from 24 May 2022 to 27 May 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2022 AGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 23 May 2022.

### AUDITOR

BDO Limited retires and, being eligible, has offered themselves for re-appointment. A resolution for the re-appointment of BDO Limited as auditor of the Company will be proposed at the 2022 AGM.

On behalf of the Board

**China Saftower International Holding Group Limited**

**Dang Fei**

*Chairman*

Hong Kong, 31 March 2022

# DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

### Mr. Dang Fei (黨飛先生), aged 44

Mr. Dang Fei is one of the founders of Sichuan Saftower and one of our Controlling Shareholders and has over 15 years of experience in the manufacturing, processing and sale of wires and cables since the establishment of our Group. He was appointed as our Director on 9 October 2018 and was re-designated as our executive Director on 22 May 2019. He also serves as the chairman of our Board, chief executive officer of our Group, a director of ten of our subsidiaries, namely Bida Investment, Weichi Investment, Wechi Int'l, Saftower International, Saftower Management, Guangyuan Saftower Technology, Sichuan Saftower, Guangyuan Saftower, Sichuan Liangdian and Guangyuan Shuneng. He is responsible for overseeing the overall corporate development, strategic planning and day-to-day management of our Group's operation. He is the chairperson of our nomination committee.

Mr. Dang Fei graduated from Chengdu University of Technology (成都理工大學) in June 1999 with a diploma degree majoring in business management. He obtained the qualification of Senior Professional Manager (高級職業經理人) from the National Talent Flow Centre of the Ministry of Human Resource and Social Security of the PRC\* (人事部全國人才流動中心) and the Research Centre for Professional Managers (職業經理研究中心) in September 2007. Mr. Dang Fei has also achieved various accomplishments and received a number of awards. He was awarded the Outstanding Member of the Chinese People's Political Consultative Conference Sichuan Pixian Committee\* (政協郫縣委員會) (currently known as Chinese People's Political Consultative Conference Chengdu Pidu District Committee\* (政協成都市郫都區委員會)) in "Four-one" event ("四個一"活動先進委員), Outstanding Entrepreneur in Sichuan Province (四川省優秀企業家) and Outstanding Young Entrepreneur in Guangyuan Economic and Technological Development Zone (廣元經濟技術開發區傑出青年企業家) in 2007, 2013 and 2018, respectively.

Mr. Dang Fei was also a member of the 9th standing committee of the Chinese People's Political Consultative Conference Sichuan Pixian Committee\* (中國人民政治協商會議第九屆郫縣委員會常委) (currently known as Chinese People's Political Consultative Conference Chengdu Pidu District Committee\* (政協成都市郫都區委員會)) in 2012.

### Mr. Wang Xiaozhong (王小仲先生), aged 44

Mr. Wang Xiaozhong is the other co-founder of Sichuan Saftower. He was appointed as our Director on 9 October 2018 and was re-designated as our executive Director on 22 May 2019. He is responsible for overseeing the overall strategic planning, business development and day-to-day management of our Group's operation. Mr. Wang currently also serves as a director of three of our subsidiaries, namely Saftower Management, Guangyuan Saftower Technology and Sichuan Saftower and the supervisor of two of our subsidiaries, namely Sichuan Liangdian and Guangyuan Saftower.

Mr. Wang has over 15 years of experience in the manufacturing, processing and sale of wires and cables. Prior to the establishment of our Group in June 2004, Mr. Wang worked in the IT department of Huaxi Securities Co., Ltd.\* (華西證券股份有限公司) from March 2001 to June 2002.

Mr. Wang graduated from Chengdu Institute of Meteorology (成都氣象學院) (currently known as Chengdu University of Information Technology (成都信息工程大學)) in June 2000 with a bachelor degree majoring in electronics, communication engineering.

Mr. Wang has also been a director of Chengdu Amazing Information Technology Company Limited\* (成都安美勤信息技術股份有限公司), a company listed on the National Equities Exchange and Quotations ("NEEQ") (stock code: 831288), since 22 April 2014.

### **Ms. Luo Xi (羅茜女士), aged 35**

Ms. Luo Xi was appointed as our executive Director on 22 May 2019. She is responsible for accounting operation and overall corporate finance of our Group. Ms. Luo currently also serves as a director of two of our subsidiaries, namely Saftower Management and Guangyuan Saftower Technology.

Ms. Luo joined our Group in August 2009 as a statistical officer and served as an accountant of our Group from February 2011 to February 2014. From March 2014 to March 2015, Ms. Luo worked as the financial manager in a company called Chengdu Red Pearl Agricultural Development Company Limited\* (成都紅珍珠農業開發有限公司) (“**Chengdu Red Pearl**”), which is owned as to 60% by Mr. Dang Fei and 40% by Ms. Yu Xueling (于雪琳), the mother of Mr. Dang Fei and Mr. Dang Jun. Chengdu Red Pearl is principally engaged in the plantation and sale of agricultural products. In April 2015, Ms. Luo rejoined our Group as assistant finance manager and was then promoted to the head of finance department, overseeing the accounting operation and finance of our Group.

Ms. Luo graduated from Sichuan Normal University (四川師範大學) in December 2010 with a bachelor degree majoring in E-commerce after passing the self-taught higher education exam. She obtained the Certificate of Accounting Profession (會計從業資格) from the Finance Bureau of Chengdu Jinjiang District\* (成都市錦江區財政局) in October 2011 and the secondary qualification in accountancy (會計中級) from Sichuan Provincial Human Resources and Social Security Department (四川省人力資源和社會保障廳) in December 2020.

### **Mr. Luo Qiang (羅強先生), aged 35**

Mr. Luo Qiang was appointed as our executive Director on 22 May 2019. He is responsible for the sales and marketing as well as customer development of our Group. Mr. Luo currently also serves as a director of one of our subsidiaries, namely Guangyuan Tongchuang.

Mr. Luo joined our Group as a salesman in October 2008 and was promoted to deputy officer of the general office (綜合辦副主任) on 1 September 2009, where he was responsible for the human resources and daily office administration work of our Group. Mr. Luo served as the sales manager (銷售部負責人) of our Group from April 2011 to March 2013. In April 2013, he was further promoted to officer of the general office (總經辦主任), providing assistance to the general manager in managing and supervising sales and marketing of our Group. Mr. Luo left our Group in August 2014 and rejoined our Group in May 2016 serving as a marketing director of our Group and the general manager of Guangyuan Saftower and Guangyuan Shuneng. Prior to joining our Group, Mr. Luo worked for Ruida Futures Brokerage Company Limited\* (瑞達期貨經紀有限公司) (currently known as Ruida Futures Company Limited (瑞達期貨股份有限公司)) as a futures broker (期貨經紀) from December 2007 to October 2008. From August 2014 to April 2016, Mr. Luo operated a few wholesale liquor shops under the name of “Yang’an Folk Winery”\* (陽安民間老酒坊) in Pixian (currently known as Pidu District) and High-tech district in Chengdu, PRC.

Mr. Luo graduated from Sichuan Tianyi College (民辦四川天一學院) in June 2008, with a diploma degree majoring in international finance (securities investment). He was awarded the Excellent Communist Party Member in the District (全區優秀共產黨員) by the Communist Party Working Committee of Guangyuan Economic and Technological Development Zone\* (廣元經濟技術開發區黨工委) in June 2018.

## DIRECTORS AND SENIOR MANAGEMENT

### Non-executive Director

#### Mr. Wang Haichen (王海臣先生), aged 43

Mr. Wang Haichen was appointed as our non-executive Director on 22 May 2019.

Mr. Wang Haichen has been in the legal practice for over 15 years. He obtained a bachelor degree majoring in law from Sichuan Normal University (四川師範大學) in June 2004 after passing the self-taught higher education exam. He passed the China Judicial Examination (國家司法考試) in September 2002 and obtained his Lawyer's Practising Certificate (律師執業證書) in October 2003.

From January 2004 to December 2007, Mr. Wang Haichen worked as an attorney at Sichuan Tiancheng Law Firm\* (四川天稱律師事務所). Mr. Wang Haichen was promoted to assistant chief lawyer (副主任律師) of the firm in January 2008 and assumed the office of chief lawyer (主任律師) in September 2015, responsible for overseeing the whole firm. In addition to his work at Sichuan Tiancheng Law Firm, Mr. Wang Haichen has also been serving as the vice president of Guangyuan Bar Association\* (廣元市律師協會) since November 2018 and an arbitrator at Guangyuan Arbitration Association\* (廣元仲裁委員會) since January 2014, respectively.

Mr. Wang Haichen has also achieved various accomplishments and received a number of awards. He was awarded the Top Ten Outstanding Young Lawyers in Guangyuan (廣元市十大優秀青年律師) by Guangyuan Bar Association in November 2016 and Excellent Lawyer of Guangyuan (廣元市優秀律師) by Guangyuan Justice Bureau\* (廣元市司法局) in January 2018. In January 2018, Mr. Wang Haichen was further awarded Outstanding Lawyer of Sichuan Province (四川省優秀律師) by Department of Justice of Sichuan Province (四川省司法廳) and Sichuan Province Lawyers Association (四川省律師協會).

Since December 2018, Mr. Wang Haichen has been a director of Guangyuan Guangxin Agricultural Finance Guarantee Company Limited\* (廣元市廣信農業融資擔保股份有限公司) listed on the NEEQ (stock code: 832228), which was the guarantor of the two loans with outstanding balance of RMB8.0 million in aggregate advanced by Industrial and Commercial Bank of China to Guangyuan Saftower as at the Latest Practicable Date.

### Independent non-executive Directors

#### Dr. Zuo Xinzhang (左新章博士), aged 39

Dr. Zuo Xinzhang was appointed as our independent non-executive Director on 10 June 2020. He is a member of our audit committee, remuneration committee and nomination committee.

Dr. Zuo has over 14 years of experience in materials science. From July 2005 to May 2007, he worked as a technician at China Petroleum Seventh Construction Corporation\* (中國石油天然氣第七建設有限公司). Dr. Zuo then joined Xi'an Xinyao Ceramic Composite Materials Company Limited\* (西安鑫堯陶瓷複合材料有限公司) and worked as the project manager from July 2015 to November 2017, where he completed his postdoctoral research at Northwestern Polytechnical University (西北工業大學) in aerospace science and technology (航空宇航科學與技術) and obtained his postdoctoral certificate in April 2018.

Dr. Zuo obtained a bachelor degree in metal material engineering from China University of Petroleum (中國石油大學) in June 2005, a master degree and a PhD degree in material science from Northwestern Polytechnical University (西北工業大學) in April 2010 and June 2015, respectively. Dr. Zuo obtained the qualification of engineer from Xi'an Municipal Human Resources and Social Security Bureau (西安市人力資源和社會保障局) in June 2015. He further obtained the qualification of senior engineer from Department of Human Resources and Social Security of Shaanxi Province (陝西省人力資源和社會保障廳) in November 2017.

### **Mr. Chan Oi Fat (陳愛發先生), aged 43**

Mr. Chan Oi Fat was appointed as our independent non-executive Director on 10 June 2020. He is the chairperson of our audit committee and a member of our remuneration committee and nomination committee.

Mr. Chan has extensive experience in professional accounting, auditing and corporate financial services. Mr. Chan joined Deloitte Touche Tohmatsu in September 2000 and left as a manager in January 2008.

Mr. Chan joined Ta Yang Group Holdings Limited, a company listed on the Stock Exchange (stock code: 1991), which is an investment holding company principally engaged in manufacturing input device, in January 2008 as company secretary and qualified accountant and resigned as company secretary in February 2017 but remained as the group's financial controller until March 2018. Since February 2018, Mr. Chan has been the company secretary of China Leon Inspection Holding Limited, a company listed on the Stock Exchange (stock code: 1586), which is an investment holding company principally engaged in providing inspection services of coal in the PRC. In April 2018, Mr. Chan joined SML (Hong Kong) Limited, which is a garment accessories manufacturer and seller and he was promoted to the post of chief financial officer since February 2019.

Mr. Chan has been an independent non-executive director of Shanghai Prime Machinery Company Limited, a company listed on the Stock Exchange (stock code: 2345), which is principally engaged in the design, manufacture and sale of fasteners, since June 2014.

Mr. Chan graduated from the City University of Hong Kong in November 2000 with a degree of Bachelor of Business Administration (Hons) in Accountancy. He has become a member of the Hong Kong Institute of Certified Public Accountants since October 2004 and a member of the Association of Certified Chartered Accountants since December 2003. He has also become a life member of the Hong Kong Independent Non-Executive Director Association since March 2015.

## DIRECTORS AND SENIOR MANAGEMENT

### **Ms. Hu Xiaomin (胡曉敏女士), aged 40**

Ms. Hu Xiaomin was appointed as our independent non-executive Director on 10 June 2020. She is the chairperson of our remuneration committee and a member of our audit committee and nomination committee.

Ms. Hu has over 10 years of experience in business administration and financing. She served as investor relations officer for Honghua Group Limited, a company listed on the Stock Exchange (stock code: 196), from December 2009 to July 2011 and as the secretary of board of directors and manager of strategic development in Sichuan Zhongsheng Industry Group Company Limited\* (四川中勝實業集團有限公司) from July 2011 to July 2013. She then joined Chengdu Branch of Sichuan Shuangma Cement Company Limited\* (四川雙馬水泥股份有限公司成都分公司), which is listed on the Shenzhen Stock Exchange (stock code: 000935), as treasury manager from July 2013 to April 2016. She then worked as senior fund manager at Sichuan Health Care Industry Equity Investment Fund Partnership (Limited Partnership)\* (四川省健康養老產業股權投資基金合夥企業) from April 2016 to July 2017. In September 2017, Ms. Hu co-founded Chengdu Fin-wisely Consulting Company Limited\* (成都方思維力企業管理有限公司) engaging in corporate advisory with an Independent Third Party and worked as the general manager of the company from then to July 2018. Since July 2018, Ms. Hu has been one of the shareholders of a company engaging in fund management, namely Chengdu Jingying Zhiyuan Venture Capital Management Company Limited\* (成都菁英致遠創業投資管理有限公司) and served as the general manager.

Ms. Hu obtained a bachelor degree in Business Administration from Sichuan University (四川大學) in July 2005, a master degree of Business Administration and a master degree in professional accountancy from The University of South Dakota in August 2006 and May 2008, respectively.

Ms. Hu has achieved various qualifications. She is a Chartered Financial Analyst Charter holder and she passed the exams held by Shanghai Stock Exchange to act as secretary of board of directors.

### **Senior Management**

#### **Mr. Dang Jun (黨軍先生), aged 46**

Mr. Dang Jun was appointed as the deputy director of the Group on 25 September 2007. Mr. Dang Jun is the elder brother of Mr. Dang Fei. From then until August 2015, Mr. Dang Jun had been working in the marketing department of our Group, providing assistance to Mr. Dang Fei in carrying out the marketing strategies. From 1 September 2015 and up to the Latest Practicable Date, Mr. Dang Jun has been mainly serving as the secretary of the Communist Party branch in our Group, responsible for the daily office administration work of our Group and managing members of the Communist Party within our Group. Mr. Dang Jun currently also serves as a director of one of our subsidiaries, namely Sichuan Saftower and a supervisor of one of our subsidiaries, namely Lhasa Saftower.

Mr. Dang Jun completed a bachelor degree in Chinese studies from Sichuan Union University (四川聯合大學) (currently known as Sichuan University (四川大學)) in June 1998. From August 2001 to December 2003, Mr. Dang Jun attended CPC Sichuan Provincial Party School\* (中共四川省委黨校) and obtained a bachelor degree in economic management. Before joining our Group, Mr. Dang Jun served various positions at Chengdu Bureau of Public Security, Jinniu Branch\* (成都市公安局金牛區分局) from August 1998 to March 2007 and as a clerk (科員) at Chengdu Bureau of Public Security, Wuhou Branch\* (成都市公安局武侯區分局) from March 2007 to August 2007. He was promoted to deputy investigator (副科級偵察員) in August 2007.

### **Ms. Liu Qing (劉晴女士), aged 44**

Ms. Liu Qing was appointed as the Deputy human resources director of the Group on 4 January 2017. Ms. Liu Qing joined our Group in April 2015 as the deputy human resources manager. She was promoted to deputy human resources director in January 2017, responsible for managing the human resources of our Group. Ms. Liu Qing currently also serves as the supervisor of two of our subsidiaries namely, Guangyuan Shuneng and Guangyuan Tongchuang.

Prior to joining our Group, Ms. Liu Qing worked as the assistant to chairman of the board (董事長助理) and deputy manager of the human resources and administration department (人事行政部門副總經理) at Chengdu Ideal Technology Development Co., Ltd. (成都理想科技開發有限公司) from March 2011 to March 2015.

Ms. Liu Qing graduated from Sichuan Union University (四川聯合大學) (currently known as Sichuan University (四川大學)) in December 1998 with a diploma degree majoring in marketing. She obtained the qualification of Enterprise Human Resources Manager (企業人力資源管理師) from the Occupational Skill Testing Authority of Sichuan Province\* (四川省職業技能鑒定指導中心) in January 2017.

### **Ms. Hu Yi (胡倚女士), aged 37**

Ms. Hu Yi was appointed as the deputy financial director of the Group on 14 December 2017, responsible for assisting Ms. Luo Xi in cost, tax and financial management of our Group. Ms. Hu Yi joined our Group in June 2015 as the deputy manager of the finance department and was promoted to deputy financial director, responsible for our finance matters in Guangyuan, in December 2017. Ms. Hu Yi currently also serves as a director of one of our subsidiaries, namely Guangyuan Tongchuang.

Prior to joining our Group, Ms. Hu Yi worked for Maijiale (Beijing) Technology Company Limited\* (買家樂(北京)科技有限公司), as an accountant from July 2007 to July 2009, and Sichuan Hengfeng Air Compressor Company Limited\* (四川恒豐空壓機有限公司) as an accountant from March 2011 to December 2014.

Ms. Hu Yi graduated from Southwestern University of Finance and Economics (西南財經大學) in June 2018 with a diploma degree majoring in Accountancy after passing the self-taught higher education exam. She obtained the Certificate of Accounting Profession (會計從業資格) from Beijing Finance Bureau\* (北京市財政局) in June 2007, the primary accountant title (會計初級職稱) in May 2009 from Beijing Municipal Human Resources and Social Security Bureau (北京市人力資源和社會保障局) and the medium level accountant title (會計中級職稱) from Sichuan Provincial Human Resources and Social Security Department (四川省人力資源和社會保障廳) in October 2013.

### **Mr. Liu Yongkang (劉永康先生), aged 50**

Mr. Liu Yongkang was appointed as the production director of the Group on 1 April 2010, responsible for the production operation of the Group. Mr. Liu Yongkang currently also serves as a supervisor of three of our subsidiaries, namely Saftower Management, Guangyuan Saftower Technology and Sichuan Saftower and a director of another subsidiary, Guangyuan Tongchuang.

Prior to joining our Group, Mr. Liu worked as a technician at Chengdu Sandian Company Limited\* (成都三電股份有限公司) from January 1999 to December 2009.

Mr. Liu graduated from Harbin Institute of Technology (哈爾濱工業大學) in July 1995 with a bachelor degree majoring in Polymer Science (高分子材料). He obtained the qualification of engineer from Chengdu Leading Group for Reform of Professional Titles\* (成都市職稱改革工作領導小組) in November 2006.

# INDEPENDENT AUDITOR'S REPORT



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## TO THE SHAREHOLDERS OF CHINA SAFTOWER INTERNATIONAL HOLDING GROUP LIMITED

(incorporated in Cayman Islands with limited liability)

### OPINION

We have audited the consolidated financial statements of China Saftower International Holding Group Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) set out on pages 44 to 119, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the “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 HKICPA’s “Code of Ethics for Professional Accountants” (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Impairment assessment of trade receivables**

As at 31 December 2021, the Group's gross trade receivables amounted to RMB220.0 million, against which a loss allowance of RMB5.5 million was recorded.

Management measures the loss allowance on trade receivables at an amount equal to lifetime expected credit loss (ECLs) based on expected loss rates for each category of trade receivables. The expected loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions, customer-specific conditions, and forward-looking information.

Such assessment involves significant management judgement and estimation. We identified the loss allowance on trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective.

Refer to summary of significant accounting policies in Note 4.8(ii), critical accounting judgements and key sources of estimation in Note 5(iv) and disclosures of trade receivables in Note 21 and Note 42(a) to the consolidated financial statements.

**Our responses:**

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

- reviewing and assessing the Group's accounting policy for estimating of ECLs on trade receivables;
- discussing with management for the recoverability of significant trade receivables that are past due as at year end and corroborating explanations from management with supporting evidences, such as understanding on-going business relationship with the customers based on trade records and checking customers' settlement records; and
- evaluating management's calculation of loss allowance by reviewing the inputs and information used by management in the ECLs models, including testing the accuracy of the trade receivables ageing report, evaluating whether the expected loss rates applied with historical credit loss rates appropriately adjusted in accordance with current economic conditions and forward-looking information.

**OTHER INFORMATION IN THE ANNUAL REPORT**

The directors 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.

## INDEPENDENT AUDITOR'S REPORT

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.

### **DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern 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.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

### **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. This report is made solely to you, as a body, in accordance with the terms of our 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 HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, 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*

**Lau Kin Tat, Terry**

Practising Certificate no. P07676

Hong Kong, 31 March 2022

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	7	544,389	518,159
Cost of sales		(538,333)	(481,703)
<b>Gross profit</b>		<b>6,056</b>	36,456
Other income and gains	8	15,033	8,222
Selling and distribution expenses		(4,498)	(6,006)
Administrative and other expenses		(29,749)	(18,591)
Impairment losses on trade and other receivables		(3,123)	(246)
Impairment losses on property, plant and machinery		(2,637)	—
Listing expenses		—	(7,795)
Finance costs	9	(11,729)	(9,374)
<b>(Loss)/profit before income tax credit</b>	10	<b>(30,647)</b>	2,666
Income tax credit	12	4,124	124
<b>(Loss)/profit for the year</b>		<b>(26,523)</b>	2,790
<b>Other comprehensive income</b>			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		61	(535)
<b>Total comprehensive income for the year</b>		<b>(26,462)</b>	2,255
<b>(Loss)/profit for the year attributable to:</b>			
Owners of the Company		(25,224)	1,895
Non-controlling interests		(1,299)	895
		<b>(26,523)</b>	2,790
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the Company		(25,163)	1,360
Non-controlling interests	36	(1,299)	895
		<b>(26,462)</b>	2,255
<b>(Loss)/earnings per share attributable to owners of the Company</b>			
Basic and diluted ( <i>RMB cents</i> )	14	(2.92)	0.27

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	137,017	122,038
Right-of-use assets	19	8,991	10,427
Goodwill	17	597	—
Intangible assets	16	284	223
Deferred tax assets	18	4,442	445
Deposits and prepayments	22	7,720	1,185
Total non-current assets		159,051	134,318
<b>Current assets</b>			
Inventories	20	20,409	16,739
Trade and bills receivables	21	214,597	161,483
Prepayments, deposits and other receivables	22	67,717	24,456
Amounts due from shareholders	24	169	5
Financial assets at fair value through profit and loss	23	1,200	—
Cash and cash equivalents	25	6,668	12,073
Total current assets		310,760	214,756
<b>Total assets</b>		<b>469,811</b>	<b>349,074</b>
<b>Current liabilities</b>			
Contract liabilities	26	23,064	3,021
Trade payables	27	65,545	56,674
Accruals and other payables	28	36,383	6,989
Amount due to a shareholder	24	7,865	160
Amount due to non-controlling interest	24	1,800	—
Borrowings	29	166,658	97,298
Lease liabilities	31	1,626	575
Income tax payable		36	451
Deferred income	30	368	368
Total current liabilities		303,345	165,536
<b>Net current assets</b>		<b>7,415</b>	<b>49,220</b>
<b>Total assets less current liabilities</b>		<b>166,466</b>	<b>183,538</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>Non-current liabilities</b>			
Borrowings	29	1,459	3,081
Lease liabilities	31	972	731
Deferred tax liabilities	18	1,227	1,497
Deferred income	30	1,717	2,085
Total non-current liabilities		5,375	7,394
Total liabilities		308,720	172,930
<b>Net assets</b>			
<b>EQUITY</b>			
Share capital	32	8,222	7,226
Reserves	33	125,065	143,759
<b>Equity attributable to owners of the Company</b>		<b>133,287</b>	150,985
<b>Non-controlling interests</b>	36	<b>27,804</b>	25,159
<b>Total equity</b>		<b>161,091</b>	176,144

On behalf of the directors

\_\_\_\_\_  
**Dang Fei**  
Director

\_\_\_\_\_  
**Wang Xiaozhong**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Equity attributable to owners of the Company							Non-controlling interests	Total
	Share capital	Share premium	Capital reserves	Statutory reserves	Foreign exchange reserves	Retained earnings	Sub-total		
	RMB'000 (Note 32)	RMB'000 (Note 33)	RMB'000 (Note 33)	RMB'000 (Note 33)	RMB'000 (Note 33)	RMB'000 (Note 33)	RMB'000		
<b>At 1 January 2020</b>	–	–	69,696	6,323	–	35,738	111,757	27,644	139,401
Profit for the year	–	–	–	–	–	1,895	1,895	895	2,790
Other comprehensive income	–	–	–	–	(535)	–	(535)	–	(535)
Total comprehensive income for the year	–	–	–	–	(535)	1,895	1,360	895	2,255
Capitalisation issue (Note 32(b) & Note 33)	5,420	(5,420)	–	–	–	–	–	–	–
Issue of shares under share offer (Note 32(c) & Note 33)	1,806	52,388	–	–	–	–	54,194	–	54,194
Share issue expenses (Note 33)	–	(16,326)	–	–	–	–	(16,326)	–	(16,326)
Dividend to non-controlling interests (Note 36)	–	–	–	–	–	–	–	(3,380)	(3,380)
Transfer to statutory reserves	–	–	–	1,401	–	(1,401)	–	–	–
<b>At 31 December 2020 and 1 January 2021</b>	7,226	30,642	69,696	7,724	(535)	36,232	150,985	25,159	176,144
Profit for the year	–	–	–	–	–	(25,224)	(25,224)	(1,299)	(26,523)
Other comprehensive income	–	–	–	–	61	–	61	–	61
Total comprehensive income for the year	–	–	–	–	61	(25,224)	(25,163)	(1,299)	(26,462)
Issue of shares under subscription (Note 32(d) & Note 33)	996	6,478	–	–	–	–	7,474	–	7,474
Share issue expenses (Note 33)	–	(9)	–	–	–	–	(9)	–	(9)
Acquisition of a subsidiary	–	–	–	–	–	–	–	3,944	3,944
Transfer to statutory reserves	–	–	–	6	–	(6)	–	–	–
<b>At 31 December 2021</b>	8,222	37,111	69,696	7,730	(474)	11,002	133,287	27,804	161,091

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
<b>Cash flows from operating activities</b>			
(Loss)/profit before income tax credit		<b>(30,647)</b>	2,666
Adjustments for:			
Depreciation of property, plant and equipment	10	<b>8,327</b>	7,869
Depreciation of right-of-use assets	10	<b>1,328</b>	752
Loss/(gain) on disposal of property, plant and equipment, net	10	<b>240</b>	(80)
Gain on early termination of lease	8	<b>(315)</b>	—
Gain on derecognition of trade payable	8	<b>(130)</b>	(252)
Written-off of property, plant and equipment	15	<b>1</b>	176
Amortisation of intangible assets	10	<b>36</b>	17
Allowance for expected credit losses on trade receivables	10	<b>3,083</b>	309
Allowance for/(reversal of) expected credit losses on other receivables	10	<b>40</b>	(63)
Written off of other receivables	10	<b>—</b>	25
Impairment on property, plant and equipment	10	<b>2,637</b>	—
Release of deferred income	10	<b>(368)</b>	(368)
Net realised and unrealised gain on financial assets at fair value through profit or loss	8	<b>(303)</b>	—
Finance costs	9	<b>11,729</b>	9,374
Interest income	8	<b>(1,512)</b>	(16)
<b>Operating (loss)/profit before working capital changes</b>		<b>(5,854)</b>	20,409
(Increase)/decrease in inventories		<b>(3,106)</b>	4,032
Increase in trade and bills receivables		<b>(56,197)</b>	(13,757)
(Increase)/decrease in prepayments, deposits and other receivables		<b>(5,261)</b>	1,284
Increase/(decrease) in contract liabilities		<b>20,043</b>	(3,783)
Increase/(decrease) in trade payables		<b>7,259</b>	(11,482)
Increase/(decrease) in accruals and other payables		<b>15,308</b>	(4,511)
<b>Cash used in operations</b>		<b>(27,808)</b>	(7,808)
Income tax paid		<b>(415)</b>	(1,606)
<b>Net cash used in operating activities</b>		<b>(28,223)</b>	(9,414)

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2021*

	<i>Notes</i>	<b>2021</b>	2020
		<b>RMB'000</b>	RMB'000
<b>Cash flows from investing activities</b>			
Purchases of intangible assets		(110)	(115)
Purchases of property, plant and equipment		(11,402)	(10,803)
Net cash outflow from acquisition of a subsidiary	37	(8,980)	—
Advance to a shareholders		(164)	—
Loan advanced to third party		(500)	—
Interest received		1,512	16
Proceeds from disposal of property, plant and equipment		1,638	164
Payment for financial assets at fair value through profit or loss		(5,619)	—
Proceeds from sales of financial assets at fair value through profit or loss		4,722	—
<b>Net cash used in investing activities</b>		<b>(18,903)</b>	<b>(10,738)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	39	153,573	104,712
Repayments of borrowings	39	(119,835)	(103,495)
Interest paid on borrowings	39	(6,915)	(8,717)
Repayments of lease liabilities	39	(1,114)	(308)
Increase in amount due to a shareholder	39	7,705	160
Increase in amount due to non-controlling interest	39	1,000	—
Dividend paid to non-controlling interests		—	(3,380)
Proceeds from issue of ordinary shares		7,474	54,194
Share issue expenses		(186)	(13,108)
<b>Net cash generated from financing activities</b>		<b>41,702</b>	<b>30,058</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,424)</b>	<b>9,906</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>12,073</b>	<b>2,726</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>19</b>	<b>(559)</b>
<b>Cash and cash equivalents at end of year</b>		<b>6,668</b>	<b>12,073</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 October 2018. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands and its principal place of business in the People's Republic of China (the "PRC") is at No. 9 Huaide Road, Sichuan-Zhejiang Cooperation Industrial Park, Guangyuan Economic and Technological Development Zone, Guangyuan, Sichuan Province, the PRC.

The Company is an investment holding company. The Company and its subsidiaries now comprising the Group (the "Group") are principally engaged in the manufacturing and sale of wires and cables and manufacturing sale of aluminium products in the PRC. Red Fly Investment Limited, which is wholly owned as to 80.79% by Dang Fei and 19.21% by Dang Jun ("Controlling Shareholders"), has 38.18% interest in the Company.

The shares of the Company have been listed on GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 July 2020.

The consolidated financial statements for the year ended 31 December 2021 were approved and authorised for issue by the board of directors of the Company on 31 March 2022.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### 2.1 Adoption of new or amended revised HKFRSs — effective 1 January 2021

The Hong Kong Institute of Certified Public Accountants has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendment to HKFRS 16	Covid-19-Related Rent Concessions

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

### 2.2 New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group’s 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.

HKFRS 17	Insurance Contracts and the related amendments <sup>3</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 <sup>1</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to HK Interpretation 5 (2020) <sup>3</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>3</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>3</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>3</sup>
Amendment to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 April 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined

The directors of the Company do not anticipate the application of these new or amended HKFRSs in future will have any significant impact on the Group’s financial statements.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of Stock Exchange.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 3. BASIS OF PREPARATION (CONTINUED)

### (b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared under the historical cost basis.

During the year ended 31 December 2021, the Group incurred a net loss of approximately RMB26,523,000, the net cash used in operating activities was approximately RMB28,223,000. These conditions may cast significant doubt about the Group's ability to continue as a going concern. Nevertheless, these consolidated financial statements were prepared based on the assumption that the Group is able to operate as a going concern and the directors of the Company are of the view that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due based on a cash flow forecast covering a period from 1 January 2022 to 31 March 2023 after taking account of the following events and measures:

- (i) The directors have been endeavouring to improve the Group's operating cash flows through implementing various cost control measures;
- (ii) The Group has been actively negotiating with the lending banks and the other loan lenders for the renewal of banking facilities and other loans upon maturity amounting to approximately RMB129,900,000 out of the current borrowings amounting to approximately RMB166,658,000 as at 31 December 2021. These borrowings were either pledged by the Group's property, plant and equipment and right-of-use assets. Given the good track records with the relevant financial institutions and the availability of sufficient assets as collaterals, the directors are of the opinion that the Group will successfully renew the existing interest-bearing borrowings upon maturity;
- (iii) Subsequent to the year ended 31 December 2021, the Group has further obtained credit loan facilities of HKD49,000,000 (equivalent to approximately RMB40,180,000) from a money lender in Hong Kong which will be secured by certain assets provided by a shareholder of the Company after drawing of loans. With this additional credit facility, the Group has a total unutilised credit facility of approximately RMB52,672,000 for its working capital at date for issue of these consolidated financial statements.

The directors also performed a sensitivity analysis on certain key parameter, i.e. revenue by considering any possible negative impact on the effectiveness of its measures to improve profitability. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2021*

## **3. BASIS OF PREPARATION (CONTINUED)**

### **(c) Functional and presentation currencies**

The Company's functional currency is Hong Kong dollar. As the Group's operations are principally conducted in the PRC, the consolidated financial statements have been presented in Chinese Renminbi ("RMB"). All financial information presented in RMB has been rounded to the nearest thousand ("RMB'000"), unless otherwise stated.

## **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **4.1 Business combination and basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.1 Business combination and basis of consolidation (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Changes in the Group's interests in a subsidiary that do not result in a loss of control of the subsidiary are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

### 4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (1) power over the investee, (2) exposure, or rights, to variable returns from the investee, and (3) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statements of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2021*

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.3 Non-controlling interests

Non-controlling interests in a subsidiary relate to the equity in the subsidiary which is not attributable directly or indirectly to the owners of the parent. This is shown separately in the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of financial position and the consolidated statements of changes in equity.

Non-controlling interests in the acquiree that are a present ownership interest and entitle its holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value, of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis.

### 4.4 Goodwill

Goodwill represents the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree over the fair value of the identifiable assets and liabilities measured as at the acquisition date.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the combination. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4.15), and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro-rata basis on the carrying amount of each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	30 years
Plant and machinery	10–30 years
Furniture and fixtures	3–5 years
Computer and office equipment	3–10 years
Motor vehicles	5–10 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.6 Leases

#### ***The Group as lessor***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased assets to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

Any changes in the scope of the consideration for a lease that was not part of the original terms and conditions of the lease are accounted for as lease modifications. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, recognising the remaining lease payments as income on either a straight-line basis or another systematic basis over the remaining lease term.

#### ***The Group as lessee***

All leases are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term of less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

#### ***Right-of-use asset***

The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at depreciated cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.6 Leases (Continued)

#### **Right-of-use asset (Continued)**

Other than the above right-of-use assets, the Group also has leased an office under tenancy agreements which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

The Group applies HKAS 36 to determine whether the right-of-use asset is impaired and accounts for any identified impairment loss.

#### **Lease liability**

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed lease payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

### 4.7 Intangible assets (other than goodwill)

#### **(i) Intangible assets acquired separately**

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

The amortisation expense is recognised in profit or loss and included in administrative expenses. The useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The amortisation expense is recognised on a straight-line basis over their useful lives as follows:

Computer software

10 years

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.7 Intangible assets (other than goodwill) (Continued)

#### (i) *Intangible assets acquired separately (Continued)*

The management of the Group considers the expected usage of the computer software by the Group, technological obsolescence and other factors to justify the useful lives of the computer software.

#### (ii) *Internally generated intangible assets (research and development costs)*

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- a. it is technically feasible to develop the product for it to be sold;
- b. adequate resources are available to complete the development;
- c. there is an intention to complete and sell the product;
- d. the Group is able to sell the product; and
- e. sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of sales.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.7 Intangible assets (other than goodwill) (Continued)

#### (iii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

#### (iv) *Derecognition of intangible assets*

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

#### (v) *Impairment of intangible assets*

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 4.15).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.8 Financial instruments

#### (i) **Financial assets**

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (“**FVTPL**”), transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component are initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There is one measurement category into which the Group classifies its debt instruments:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

**Fair value through profit or loss (“**FVTPL**”):** Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.8 Financial instruments (Continued)

#### (ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss (“ECL”) on trade receivables and financial assets measured at amortised cost. ECLs are measured on either of the following bases:

- (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and
- (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured 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. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group measures loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward- looking factors specific to the debtors and the economic environment.

For other debt financial assets, ECLs are based on lifetime ECLs except when there has not been a significant increase in credit risk since initial recognition, in which case the allowance will be based on the 12-month ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group rebutted the presumption of a financial asset has increased credit risk significantly if it is more than 30 days past due based on the customers’ past payment history and current ability of making payments. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.8 Financial instruments (Continued)

#### (ii) Impairment loss on financial assets (Continued)

The Group rebutted the presumption of default under ECL model for a financial asset over 90 days past due based on the customers' past payment history and current ability of making payments. The Group considers that default has occurred when a financial asset is more than 1 year past due. Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group considers a financial asset to be credit-impaired when: (1) significant financial difficulty of the debtor; (2) a breach of contract, such as a default or 180 days past due event; (3) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; (4) it is probable that the debtor will enter bankruptcy or other financial reorganisation; (5) the disappearance of an active market for that financial asset because of financial difficulties; or (6) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group 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, e.g. 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. Any recoveries made are recognised in profit or loss.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.8 Financial instruments (Continued)

#### (iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

#### *Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade and other payables, borrowings, amount due to a shareholder, and lease liabilities are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

#### (iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

#### (v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with the accounting policy set out in note 4.8 (ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.8 Financial instruments (Continued)

#### (vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

### 4.9 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### 4.10 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- 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.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.10 Revenue recognition (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

#### (i) Sales of wires and cables

Customers obtain control of the wires and cables when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the wires and cables. There is generally only one performance obligation. Invoices are usually payable within 90 days.

#### (ii) Sales of aluminium products

Customers obtain control of the aluminium products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the aluminium products. There is generally only one performance obligation. Invoices are usually payable within 5 days.

#### (iii) Warranties

The Group normally provides warranty services from 1 to 2 years to its customers regarding the sales of wires and cables. The customers do not have an option to purchase warranty separately. The Group accounts for warranty in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specification (i.e. service-type warranties).

#### (iv) Other income

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

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.10 Revenue recognition (Continued)

#### **Contract assets and liabilities**

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

#### **Contract costs**

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligation in the future; and
- (c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.11 Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill not deductible for tax purposes and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries, associates and joint ventures 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 liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, provided that the deductible temporary differences are not arises from initial recognition of assets and liabilities in a transaction other than in a business combination that affects neither taxable profit nor the accounting profit. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period and reflects any uncertainty related to income tax.

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 tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date 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 assets to be recovered.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.12 Cash and cash equivalents

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Group's cash management.

### 4.13 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “**functional currency**”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. 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 translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.14 Employee benefits

#### (i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

#### (ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees. Pursuant to the relevant labour rules and regulations in the Mainland China, employees of the Group in the Mainland China participated in the central pension scheme (“**Scheme**”), which is a defined contribution plan administered by the Mainland China government, whereby the Group is required to make contributions to the Scheme based on certain percentages of the eligible employees’ salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees. Contributions made to the Scheme vest immediately.

### 4.15 Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepayments;
- right-of-use assets;
- intangible assets;
- investments in a subsidiary; and
- Goodwill

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.15 Impairment of assets (other than financial assets) (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset or the cash-generating unit (“CGU”), 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 or CGU. A CGU is the smallest identifiable group of assets that generate cash flows that are largely independent of the cash flows from other assets or groups of assets.

### 4.16 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 4.17 Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 4.18 Related parties

- (a) A person or a close member of that person’s family is related to the Group if that person:
  - (i) has control or joint control of the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company’s parent.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.18 Related parties (Continued)

- b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2021*

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.19 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 (including property, plant and equipment) are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants 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 and are recognised as other revenue, rather than reducing the related expense.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

### 4.20 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors of the Group, being the chief operating decision maker (“**CODM**”) for their decisions about resources allocation to the Group’s business components and for their review of the performance of those components. The business components reported to the CODM are determined based on the Group’s major products and service lines stated in Note 6.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except interest income, unallocated financial costs, and unallocated corporate expenses, which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the director are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty, that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities and reported amounts of revenue and expenses within the next financial year, are discussed below.

#### (i) **Estimated useful lives of property, plant and equipment and intangible assets**

In determining the useful lives of property, plant and equipment and intangible assets, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Depreciation and amortisation charge are revised if the estimated useful lives of items of property, plant and equipment and intangible assets are different from the previous estimation. Estimated useful life is reviewed, at the end of the financial year, based on changes in circumstances.

#### (ii) **Impairment of non-financial assets**

The Group assesses at the end of each financial year whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value-in-use of the CGU to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

#### (iii) **Assessment of the net realisable value of inventories**

Inventories are stated at the lower of cost and net realisable value. Management carries out an assessment to determine if there are inventories that have to be written down to net realisable value as at the end of the reporting period. Management estimates the net realisable value of inventories based on the latest market prices and current market conditions.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Key sources of estimation uncertainty (Continued)

#### (iv) *Impairment of trade and other receivables*

Management determines the provision for the trade receivables based on the ECLs which uses a lifetime expected loss allowance for all trade receivables. Management also determines the provision for the other receivables based on the ECLs which use either 12-month or lifetime ECLs depending whether the credit risk has increased significantly since initial recognition or being credit-impaired for all other receivables. The loss allowance for financial assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment which may impact the debtors' ability to repay the outstanding balances in order to estimate the ECLs for the impairment assessment.

#### (v) *Income taxes and deferred tax*

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. Transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that future taxable profits would be available against which the losses and other deductible temporary differences could be utilised. Significant management judgement is required to determine the amount of deferred tax assets that could be recognised, based on the likely timing and extent of future taxable profits together with future tax planning strategies.

## 6. SEGMENT INFORMATION

### (a) **Operating segments**

During the year, the Group was principally engaged in manufacturing and sale of wires and cables and manufacturing and sale of aluminium products in the PRC. Information reported to the Group's CODM, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole. The Group's resources are integrated and as a result, no discrete operating segment financial information is available. For management purpose, the Group has only one operating segment which is the manufacturing and sale of wires and cables and manufacturing and sale of aluminium products. Accordingly, no operating segment information is presented.

### (b) **Geographic information**

The Group's revenue was all derived from customers based in the PRC and all the Group's non-current assets are located in the PRC. Therefore, no geographical segment reporting is presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 6. SEGMENT INFORMATION (CONTINUED)

### (c) Information about major customers

Revenue from customers for the year contributing over 10% of the total revenue of the Group is as follows:

	2021 RMB'000	2020 RMB'000
Customer A	N/A <sup>(1)</sup>	59,093
Customer B	55,028	N/A <sup>(1)</sup>

<sup>(1)</sup> The corresponding revenue did not contribute over 10% revenue of the Group.

## 7. REVENUE

Revenue represents the amount received and receivable from manufacturing and sales of wires and cables and manufacturing and sales of aluminium products during the year:

	2021 RMB'000	2020 RMB'000
<b>Revenue from contracts with customers</b>		
<i>Type of goods</i>		
Manufacturing and sales of wires and cables, recognised at a point in time	385,209	515,929
Manufacturing and sales of aluminium products, recognised as a point in time	159,180	2,230
	<b>544,389</b>	518,159

The Group applies the practical expedient of not disclosing the transaction price allocated to remaining performance obligations that is part of a contract that has original expected duration of one year or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 8. OTHER INCOME AND GAINS

	Notes	2021 RMB'000	2020 RMB'000
<b>Other income</b>			
Interest income		1,512	16
Government grants and subsidies	(i)	12,026	7,196
Scrap sales		101	—
Compensation income		—	57
Rental income	(ii)	249	249
		<b>13,888</b>	7,518
<b>Gains</b>			
Gains on disposal of property, plant and equipment, net		—	80
Gain on early termination of lease		315	—
Gain on derecognition of trade payables		130	252
Net realised and unrealised gain on financial assets at FVTPL		303	—
Others		397	372
		<b>1,145</b>	704
		<b>15,033</b>	8,222

Notes:

- (i) The Group received government grants and subsidies in relation to the support of the Group's operations, purchase of plant and machinery and the reward of the employment of disabled people in the PRC. There were no unfulfilled conditions in relation to the grants and subsidies.
- (ii) During the year, the Group leased its machine to an independent third party with the lease period within one year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 9. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest expenses on bank and other borrowings	11,012	8,968
Interest expenses on lease liabilities	118	29
Others	1,178	559
Finance expenses	12,308	9,556
Finance cost capitalised in construction-in-progress	(579)	(182)
Finance costs recognised in profit or loss	11,729	9,374

### 10. (LOSS)/PROFIT BEFORE INCOME TAX CREDIT

(Loss)/profit before income tax credit is arrived at after charging/(crediting):

	2021 RMB'000	2020 RMB'000
Cost of inventories recognised as expense	538,333	481,703
Auditor's remuneration		
— Audit services	783	748
— Non-audit services	—	200
Research costs (other than amortisation costs)	1,075	1,264
Depreciation of property, plant and equipment	8,327	7,869
Depreciation of right-of-use assets	1,328	752
Loss/(gain) on disposal of property, plant and equipment, net	240	(80)
Amortisation of intangible assets	36	17
Impairment on property, plant and equipment	2,637	—
Release of deferred income	(368)	(368)
Allowance for ECLs on trade receivables	3,083	309
Allowance for/(reversal of) ECLs on other receivables	40	(63)
Listing expenses	—	7,795
Gain on derecognition of trade payables	(130)	(252)
Written-off of other receivables	—	25
Written-off of property, plant and equipment	1	176
Gain on early termination of lease	(315)	—
Employee costs (including directors' remuneration (Note 11))		
— Wages, salaries and other benefits	12,221	10,921
— Contributions to defined contribution retirement plan	2,606	987
	14,827	11,908

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' remuneration

Directors' remuneration are disclosed as follows:

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Contributions to defined contribution retirement plans RMB'000	Total RMB'000
<b>For the year ended 31 December 2021</b>				
<i>Executive directors:</i>				
Mr. Dang Fei	—	106	11	117
Mr. Wang Xiaozhong	—	139	9	148
Ms. Luo Xi	—	189	9	198
Mr. Luo Qiang	—	168	9	177
<i>Non-executive directors:</i>				
Mr. Wang Haichen	200	—	—	200
<i>Independent non-executive directors:</i>				
Mr. Zuo Xinzhang (Note (i))	60	—	—	60
Mr. Chan Oi Fat (Note (i))	149	—	—	149
Mrs. Hu Xiaomin (Note (i))	90	—	—	90
	<b>499</b>	<b>602</b>	<b>38</b>	<b>1,139</b>
<b>For the year ended 31 December 2020</b>				
<i>Executive directors:</i>				
Mr. Dang Fei	—	104	10	114
Mr. Wang Xiaozhong	—	77	8	85
Ms. Luo Xi	—	108	7	115
Mr. Luo Qiang	—	108	3	111
<i>Non-executive director:</i>				
Mr. Wang Haichen	74	—	—	74
<i>Independent non-executive directors:</i>				
Mr. Zuo Xinzhang (Note (i))	22	—	—	22
Mr. Chan Oi Fat (Note (i))	67	—	—	67
Mrs. Hu Xiaomin (Note (i))	33	—	—	33
	<b>196</b>	<b>397</b>	<b>28</b>	<b>621</b>

Note:

- (i) On 10 June 2020, Mr. Zuo Xinzhang, Mr. Chan Oi Fat and Ms. Hu Xiaomin were appointed as the independent non-executive directors of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

### (a) Directors' remuneration (Continued)

The emoluments shown above represent emolument received from the Group by the directors of the Company in their capacity as directors/employees of the Company's subsidiaries.

During the year, none of the directors (2020: Nil) waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2020: three) were directors of the Company whose emoluments are included in the disclosures in note 11(a) above. The emoluments of the remaining two (2020: two) individuals were as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and other benefits	336	247
Contributions to defined contribution retirement plans	9	8
	<b>345</b>	<b>255</b>

The emolument paid or payables to each of the above individuals were within the following bands:

	2021 No of individuals	2020 No of individuals
Nil to HK\$1,000,000	2	2

Emoluments paid or payable to members of senior management who are not directors were within the following band:

	Year ended 31 December	
	2021 No of individuals	2020 No of individuals
Nil to HK\$1,000,000	2	3

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 12. INCOME TAX CREDIT

The income tax credit in the consolidated statements of profit or loss and other comprehensive income during the year represents:

	2021 RMB'000	2020 RMB'000
Current tax		
– tax for the year	–	744
– over-provision in respect of prior year	–	(859)
Deferred tax (Note 18)	– <b>(4,124)</b>	(115) (9)
Income tax credit	<b>(4,124)</b>	(124)

No Hong Kong profits tax was provided as the Group has no estimated assessable profit in Hong Kong during the years ended 31 December 2021 and 31 December 2020.

Provision for EIT in the PRC is calculated based on a statutory tax rate of 25% of the estimated assessable profits as determined in accordance with the income tax laws and regulations applicable to the operating subsidiaries in the PRC except certain subsidiaries are entitled to preferential tax rate of 15% in the PRC as mentioned below.

Sichuan Saftower Industry Company Limited was approved as High and New Technology Enterprise by the PRC government, and accordingly, it was subject to a preferential EIT tax rate of 15% during the years ended 31 December 2021 and 31 December 2020.

Guangyuan Tongchuang New Materials Company Limited is subject to 10% income tax concession due to the preferential tax policy of the development of the western region of the PRC fulfilled for the year ended 31 December 2021 and 31 December 2020. According to “Circular on Issues Concerning Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy” (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) (Cai Shui [2011] No. 58) (財稅[2011]58號), from 1 January 2011 to 31 December 2020, EIT imposed upon any enterprises established in western region of the PRC which are engaging in the encouraged industries shall be subject to a reduced rate at 15%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 12. INCOME TAX CREDIT (CONTINUED)

The income tax credit for the year can be reconciled to the (loss)/profit before income tax credit in the consolidated statements of profit or loss and other comprehensive income as follows:

	2021 RMB'000	2020 RMB'000
(Loss)/profit before income tax credit	<b>(30,647)</b>	2,666
Tax calculated at EIT of 25% in the PRC	<b>(7,662)</b>	667
Tax effect of non-taxable income	<b>(41)</b>	(23)
Tax effect of non-deductible expenses	<b>711</b>	823
Tax effect of temporary differences not recognised	<b>2,583</b>	(118)
Tax effect of income taxed at preferential tax rate	—	(418)
Tax concession	—	(611)
Tax effect of tax losses not recognised	<b>285</b>	415
Over provision in respect of prior years	—	(859)
Income tax credit	<b>(4,124)</b>	(124)

Deferred tax liabilities have not been established for the withholding tax that would be payable on the undistributed earnings of subsidiaries of RMB38,733,000 as at 31 December 2021 (2020: RMB57,959,000) as the Group is in a position to control the dividend policies of subsidiaries and it is probable that such amount will be reinvested in the foreseeable future.

## 13. DIVIDENDS

No dividend has been paid or declared by the Company during the year of 2021, nor has any dividend been proposed since the end of the year ended 31 December 2021 (2020: Nil).

## 14. (LOSS)/EARNINGS PER SHARE

The basic (loss)/earnings per share attributable to owners of the Company for the year is calculated based on the loss attributable to owners of the Company of approximately RMB25,224,000 (2020: profit attributable to owners of the Company of approximately RMB1,895,000), and the weighted average number of ordinary shares of 865,006,000 in issue (2020: 695,342,000 shares of the Company in issue, which represents the number of ordinary shares of the Company immediately after the Reorganisation and the capitalisation issue as if these ordinary shares issued under the Reorganisation had been issued on 1 January 2019 but excluding any shares issued pursuant to the share offer). The Company did not have any potential dilutive shares for the years ended 31 December 2021 and 2020. Accordingly, the diluted earnings per share are the same as the basic earnings per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost</b>								
At 1 January 2020	87,683	—	2,045	52,594	582	1,772	4,748	149,424
Additions	—	8,352	—	2,660	9	11	122	11,154
Written-off	—	—	(2,045)	(1,749)	(424)	(722)	(125)	(5,065)
Disposals	—	—	—	(1,288)	—	—	—	(1,288)
At 31 December 2020 and 1 January 2021	87,683	8,352	—	52,217	167	1,061	4,745	154,225
Additions	292	14,127	—	4,313	—	111	108	18,951
Additions through business combination	21	1,106	—	5,021	—	12	—	6,160
Transfer	3,416	(16,674)	—	13,258	—	—	—	—
Transfer from right-of-use assets	—	—	—	3,835	—	—	—	3,835
Written-off	—	—	—	—	—	—	(28)	(28)
Disposals	—	—	—	(2,168)	—	—	(28)	(2,196)
At 31 December 2021	91,412	6,911	—	76,476	167	1,184	4,797	180,947
<b>Accumulated depreciation and impairment</b>								
At 1 January 2020	12,857	—	2,045	11,098	429	988	2,994	30,411
Depreciation	2,796	—	—	4,454	26	190	403	7,869
Written-off	—	—	(2,045)	(1,636)	(403)	(686)	(119)	(4,889)
Disposals	—	—	—	(1,204)	—	—	—	(1,204)
At 31 December 2020 and 1 January 2021	15,653	—	—	12,712	52	492	3,278	32,187
Depreciation	2,898	—	—	4,844	15	217	353	8,327
Impairment losses	880	—	—	1,757	—	—	—	2,637
Transfer from right-of-use assets	—	—	—	1,124	—	—	—	1,124
Written-off	—	—	—	—	—	—	(27)	(27)
Disposals	—	—	—	(291)	—	—	(27)	(318)
At 31 December 2021	19,431	—	—	20,146	67	709	3,577	43,930
<b>Net book value</b>								
At 31 December 2020	72,030	8,352	—	39,505	115	569	1,467	122,038
At 31 December 2021	71,981	6,911	—	56,330	100	475	1,220	137,017

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Based on an outlook of the development progress of 廣元同創新材料有限公司 (Guangyuan Tongchuang New Materials Company Limited)\* (“**Guangyuan Tongchuang**”), management carried out an impairment test on the Group’s property, plant and equipment as at 31 December 2021, with carry amount of RMB26,044,000 (2020: RMB19,044,000).

The recoverable amount of the assets has been determined based on a value in use calculation. The calculation uses cash flow projection based on the approved business plan of Guangyuan Tongchuang, which reflects cash flow from manufacturing, processing and sales of wires and cables less estimated costs, discounted at a pre-tax discount rate of 14%. One of the key assumptions of the cash flow projection is the annual growth rate in revenue which is based on the potential orders negotiated before year. The discount rate used reflects specific risks relating to the wires and cables business.

As a result of the above assessment, impairment loss was recognised for the Group’s property, plant and equipment amounted to RMB2,637,000 for the year ended 31 December 2021 (2020: nil).

As at 31 December 2021, the Group’s buildings with an aggregate net carrying amount of approximately RMB46,685,000 (2020: RMB48,650,000) were pledged as securities for the bank and other borrowings as set out in Note 29.

As at 31 December 2021, the Group’s plant and machinery with an aggregate net carrying amount of approximately RMB23,523,000 (2020: RMB707,000) were pledged as securities for the bank and other borrowings as set out in Note 29.

As at 31 December 2021, the Group’s plant and machinery with an aggregate net carrying amount of approximately RMB7,877,000 (2020: RMB7,785,000) were held under sale and leaseback liabilities as set out in Note 29.

\* *English translated name is for identification purpose only*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 16. INTANGIBLE ASSETS

	<b>Computer softwares RMB'000</b>
<b>Cost</b>	
At 1 January 2020	203
Addition	128
At 31 December 2020 and 1 January 2021	331
Addition	97
At 31 December 2021	<b>428</b>
<b>Accumulated amortisation</b>	
At 1 January 2020	91
Amortisation	17
At 31 December 2020 and 1 January 2021	108
Amortisation	36
At 31 December 2021	<b>144</b>
<b>Net book value</b>	
At 31 December 2020	223
At 31 December 2021	<b>284</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 17. GOODWILL

	2021 RMB'000	2020 RMB'000
Cost		
At 1 January	—	—
Acquisition of a subsidiary (Note 37)	597	—
At 31 December	597	—

For the purpose of impairment testing, goodwill is allocated to the CGU identified as follows:

- 雅安寶盛金屬材料有限公司 (Yaan Baosheng Metal Material Co., Ltd.)\* (“**Yaan Baosheng**”)

The recoverable amounts of CGU have been determined based on value-in-use calculations using pre-tax cash flow projections, which is based on financial budgets approved by management.

Assumptions were used in the value-in-use calculations of CGU As at 31 December 2021. The following describes each key assumption on which management has based its 5 years cash flow projections to undertake impairment testing of goodwill.

	2021
Pre-tax discount rates	17.92%
Growth rates used to extrapolate cash flows beyond the forecast period	3.00%

The discount rates used are pre-tax and reflect specific risk relating to the relevant units.

The discount rate is the expected return of the Group’s assets that reflects current market assessments of the time value of money and the specific risk associated with the CGU, after taking into account the weighted average cost of equity and debt.

This growth rate is based on the relevant industry growth forecast and does not exceed the average long term growth rate for the relevant industry.

Other key assumptions for the value-in-use calculations related to the estimation of cash inflows/outflows include budgeted sales and gross margins, and overhead costs, such estimation is based on the CGU’s past performance and management’s expectations for the market development.

The Group performed its annual impairment test with a valuation performed by an independent qualified professional valuer as at 31 December 2021 as no circumstance indicated that the carrying value may be impaired.

\* English translated name is for identification purpose only

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 18. DEFERRED TAX

	2021 RMB'000	2020 RMB'000
Deferred tax assets	4,442	445
Deferred tax liabilities	1,227	1,497

### (i) Deferred tax assets

Details of the deferred tax assets of the Group recognised and movements during the year and the prior year are as follows:

	Tax losses RMB'000
<b>At 1 January 2020</b>	—
Credit to profit or loss for the year	445
<b>At 31 December 2020 and 1 January 2021</b>	445
Acquisition of subsidiary	143
Credit to profit or loss for the year	3,854
<b>At 31 December 2021</b>	4,442

### (ii) Deferred tax liabilities

Details of the deferred tax liabilities of the Group recognised and movement, during the year and the prior year are as follows:

	Accelerated tax depreciation RMB'000
<b>At 1 January 2020</b>	1,061
Charge to profit or loss for the year	436
<b>At 31 December 2020 and 1 January 2021</b>	1,497
Credit to profit or loss for the year	(270)
<b>At 31 December 2021</b>	1,227

The Group has not recognised deferred tax assets in respect of tax losses arising in the PRC of RMB285,000 (2020: RMB415,000), that will expire in one to five years, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 19. RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Plant and machinery RMB'000	Leasehold building RMB'000	Moter vehicle RMB'000	Total RMB'000
<b>Cost</b>					
At 1 January 2020	8,659	4,316	—	—	12,975
Commencement of lease	—	—	1,045	—	1,045
At 31 December 2020 and 1 January 2021	8,659	4,316	1,045	—	14,020
Commencement of lease	—	—	2,548	112	2,660
Transfer to property, plant and equipment	—	(3,835)	—	—	(3,835)
Derecognised upon termination of lease	—	(481)	—	—	(481)
<b>At 31 December 2021</b>	<b>8,659</b>	<b>—</b>	<b>3,593</b>	<b>112</b>	<b>12,364</b>
<b>Accumulated depreciation</b>					
At 1 January 2020	1,825	1,016	—	—	2,841
Depreciation	187	460	105	—	752
At 31 December 2020 and 1 January 2021	2,012	1,476	105	—	3,593
Depreciation	187	72	1,057	12	1,328
Transfer to property, plant and equipment	—	(1,124)	—	—	(1,124)
Derecognised upon termination of lease	—	(424)	—	—	(424)
At 31 December 2021	<b>2,199</b>	<b>—</b>	<b>1,162</b>	<b>12</b>	<b>3,373</b>
<b>Net book value</b>					
At 31 December 2020	6,647	2,840	940	—	10,427
At 31 December 2021	<b>6,460</b>	<b>—</b>	<b>2,431</b>	<b>100</b>	<b>8,991</b>

The right-of-use assets for the land use rights are under medium-term leases in the PRC and are depreciated over range from 40 to 48 years on a straight-line basis.

As at 31 December 2021, the Group's land use rights with an aggregate net carrying amount of approximately RMB6,460,000 (2020: RMB6,647,000) were pledged as securities for the bank and other borrowings as set out in Note 29.

As at 31 December 2021, the Group's plant and machinery with an aggregate net carrying amount of approximately RMB nil (2020: RMB2,711,000) were pledged as securities for bank and other borrowings as set out in Note 29.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 20. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	11,393	2,549
Work-in-progress	4,183	8,007
Finished goods	4,833	6,183
	<b>20,409</b>	16,739

### 21. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	220,043	163,946
Less: Allowance for ECLs on trade receivables	(5,546)	(2,463)
	<b>214,497</b>	161,483
Bills receivables	100	—
	<b>214,597</b>	161,483

The credit period granted to customers is ranging from 0 to 365 days as at the end of the reporting period.

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
0 to 60 days	45,354	84,652
61 to 180 days	62,800	22,379
181 to 365 days	50,604	4,552
Over 365 days	61,285	52,363
	<b>220,043</b>	163,946

As at 31 December 2021, no trade receivable was pledged as a security for the bank and other borrowings as set out in Note 29. As at 31 December 2020, trade receivable of a customer of approximately RMB20,965,000 was pledged as a security for the bank and other borrowings as set out in Note 29.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
<b>Non-current:</b>		
Deposits	1,625	1,185
Prepayments	6,095	—
	<b>7,720</b>	1,185
<b>Current:</b>		
Prepayments	447	310
Prepayments to suppliers	11,594	16,526
Loan receivables (note (a))	34,500	—
Deposits	101	19
VAT recoverable	15,913	4,558
Other receivables	5,235	3,076
Less: Allowance for ECLs on other receivables	(73)	(33)
	<b>67,717</b>	24,456
	<b>75,437</b>	25,641

(a) Loan receivables are unsecured and repayable on demand, carry interest ranging from 1.00% to 7.50% per annum and are repayable according to the loan agreements.

### 23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2021 RMB'000	2020 RMB'000
Forward contracts	1,200	—

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 24. AMOUNTS DUE FROM/(TO) SHAREHOLDERS/NON-CONTROLLING INTEREST

The amounts due from/(to) shareholders are unsecured, non-interest bearing, repayable on demand and non-trade in nature.

			Maximum balance outstanding during the year	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
<b>Amounts due from shareholders</b>				
Mr. Wang Xiaozhong	19	5	157	952
Mr. Dang Jun	150	—	—	—
Mr. Dang Fei	—	—	7,761	1,042
	<b>169</b>	5	<b>7,918</b>	1,994

	2021 RMB'000	2020 RMB'000
<b>Amount due to a shareholder</b>		
Mr. Dang Fei	7,865	160

	2021 RMB'000	2020 RMB'000
<b>Amount due to non-controlling interest</b>		
Mr. Qin Chunlin ( <i>note (a)</i> )	1,800	—

- (a) Mr. Qin Chunlin is the shareholder of Yaan Baosheng, holding with 30% interest equity. The balance is unsecured, non-interest bearing and repayable on demand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use. Cash at banks earns interest at floating rates based on daily bank deposit rates.

The cash on hand and at banks are denominated in the following currencies:

	2021 RMB'000	2020 RMB'000
RMB	6,663	10,932
United State dollar ("US\$")	2	1,137
Hong Kong dollar ("HK\$")	3	4
	<b>6,668</b>	12,073

### 26. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Contract liabilities arising from sales of goods	<b>23,064</b>	3,021

The Group's contract liabilities represent advance consideration received from customers as at the year end date.

Movements in the contract liabilities during the year are as follows:

	2021 RMB'000	2020 RMB'000
<b>At 1 January</b>	<b>3,021</b>	6,804
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at beginning of year	<b>(2,712)</b>	(6,732)
Increase in contract liabilities as a result of cash received, excluding amounts recognised during the year	<b>22,755</b>	2,949
<b>At 31 December</b>	<b>23,064</b>	3,021

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 27. TRADE PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	<b>65,545</b>	56,674

The credit period on purchases from suppliers is generally ranging from 0 to 120 days as at the end of the reporting period.

An ageing analysis of the Group's trade payables as at the end of the reporting period, based on invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
0 to 60 days	<b>26,057</b>	38,522
61 to 180 days	<b>24,889</b>	11,868
181 to 365 days	<b>10,479</b>	3,685
Over 365 days	<b>4,120</b>	2,599
	<b>65,545</b>	56,674

### 28. ACCRUALS AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Accrued operating expenses	<b>4,831</b>	3,361
Accrued listing expenses	—	177
Accrued employee benefit expense	<b>2,065</b>	1,286
Payables for purchase of property, plant and equipment	<b>8,309</b>	1,469
Payable for intangible assets	—	13
Other taxes payable	<b>11,229</b>	136
Interest payable	<b>3,696</b>	178
Deposits received	<b>2,028</b>	37
Other payables	<b>4,225</b>	332
	<b>36,383</b>	6,989

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 29. BORROWINGS

	2021 RMB'000	2020 RMB'000
<b>Current:</b>		
Secured and guaranteed interest-bearing bank borrowings repayable within one year (Note (i) & (ii))	98,300	80,097
Secured and guaranteed interest-bearing other borrowings repayable within one year (Note (i) & (ii))	31,600	14,100
Unsecured interest-bearing other borrowings repayable within one year (Note (iii))	34,000	—
Sale and leaseback liabilities	2,758	3,101
	<b>166,658</b>	<b>97,298</b>
<b>Non-current:</b>		
Sale and leaseback liabilities	1,459	3,081

Notes:

- (i) The bank borrowings and other borrowings are secured by:
- (a) Buildings with an aggregate net carrying amount of approximately RMB46,685,000 as at 31 December 2021 (2020: RMB48,650,000) as disclosed in Note 15;
  - (b) Land use rights with an aggregate net carrying amount of approximately RMB6,460,000 as at 31 December 2021 (2020: RMB6,647,000) as disclosed in Note 19;
  - (c) Property of close family members of directors of the Company as disclosed in Note 38(a);
  - (d) Properties of the directors of the Company as disclosed in Note 38(b);
  - (e) Properties of the independent third parties;
  - (f) Properties of the Group's key management personnel and their close family members as disclosed in Note 38(d);
  - (g) Plant and machinery with an aggregate net carrying amount of approximately RMB23,523,000 as at 31 December 2021 (2020: RMB707,000) as disclosed in Note 15;
  - (h) Plant and machinery with an aggregate net carrying amount of approximately RMB nil(2020: RMB2,711,000) as at 31 December 2021 as disclosed in Note 19;
  - (i) Trade receivables of RMB nil as at 31 December 2021 (2020: RMB20,965,000) as disclosed in Note 21 and
  - (j) Inventories of a shareholder of Bigroad Investment Limited. Bigroad Investment Limited is one of the shareholders of the Company.
- (ii) The bank borrowings and other borrowings are guaranteed by:
- (a) directors of the Company;
  - (b) shareholders of the Company;
  - (c) close family members of directors of the Company; and
  - (d) independent third parties.
- (iii) The other borrowings are fixed interest at 7.5% per annum, unsecured and due to be settled on demand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 29. BORROWINGS (CONTINUED)

At the end of the reporting period, the Group's bank and other borrowings are scheduled to repay as follows:

	2021 RMB'000	2020 RMB'000
On demand or within one year	<b>163,900</b>	94,197

At the end of the reporting period, the Group's sale and leaseback liabilities are scheduled to repay as follows:

	2021 RMB'000	2020 RMB'000
On demand or within one year	<b>2,758</b>	3,101
More than one year, but not exceeding two years	<b>1,385</b>	1,898
More than two year, but not exceeding five years	<b>74</b>	1,183
	<b>4,217</b>	6,182

### 30. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
At 1 January	<b>2,453</b>	2,821
Credit to profit or loss	<b>(368)</b>	(368)
At 31 December	<b>2,085</b>	2,453
Less: Current portion	<b>(368)</b>	(368)
Non-current portion	<b>1,717</b>	2,085

Deferred income of the Group represents a government grant in respect of the purchase of plant and machinery of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 31. LEASES

#### The Group as a lessee

The Group leases lands and building for its production plant and office. The Group also leases certain items of plant and equipment. All the lease comprise only fixed payments over the lease terms.

#### Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property, the analysis of the net book value by class of underlying asset is as follows:

	2021 RMB'000	2020 RMB'000
Land use rights, carried at depreciated costs	6,460	6,647
Plant and machinery, carried at depreciated cost	—	2,840
Leasehold building, carried at depreciated costs	2,431	940
Motor vehicle, carried at depreciated costs	100	—

#### Lease liabilities

	Plant and machinery RMB'000	Leasehold building RMB'000	Motor vehicle RMB'000
<b>At 1 January 2020</b>	540	—	—
Commencement of lease	—	1,045	—
Interest expense	13	16	—
Lease payments	(150)	(158)	—
<b>At 31 December 2020 and 1 January 2021</b>	403	903	—
Commencement of lease	—	2,548	112
Derecognised upon termination of lease	(372)	—	—
Interest expense	5	107	6
Lease payments	(36)	(1,045)	(33)
<b>At 31 December 2021</b>	—	2,513	85

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

The Group as a lessee (Continued)

**Lease liabilities (Continued)**

Future lease payments are due as follows:

	Future lease payments RMB'000	Interest RMB'000	Present value RMB'000
<b>As at 31 December 2021</b>			
Not later than one year	1,721	(95)	1,626
Later than one year and not later than two years	978	(22)	956
Later than two years and not later than five years	17	(1)	16
Later than five years	—	—	—
	<b>2,716</b>	<b>(118)</b>	<b>2,598</b>
<b>As at 31 December 2020</b>			
Not later than one year	625	(50)	575
Later than one year and not later than two years	392	(30)	362
Later than two years and not later than five years	380	(11)	369
Later than five years	—	—	—
	1,397	(91)	1,306

The present value of future lease payments are analysed as:

	2021 RMB'000	2020 RMB'000
Current liabilities	1,626	575
Non-current liabilities	972	731
	<b>2,598</b>	1,306

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 31. LEASES (CONTINUED)

#### The Group as a lessor

The Group lease certain machines to independent third party under non-cancellable operating lease.

The minimum rent receivables under non-cancellable operating leases are as follows:

	2021 RMB'000	2020 RMB'000
Not later than one year	—	282
Later than one year and not later than two years	—	—
Later than two years and not later than three years	—	—
Later than three years and not later than four years	—	—
Later than four years and not later than five years	—	—
Later than five years	—	—
	—	282

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 32. SHARE CAPITAL

	Number	Amount RMB'000
<b>Authorised:</b>		
Ordinary shares of US\$1 each upon incorporation	50,000	345
At 1 January 2020	38,000,000	336
Increase in ordinary shares of HK\$0.01 each (Note (a))	3,962,000,000	35,658
At 31 December 2020 and 31 December 2021	4,000,000,000	35,994
<b>Issued and fully paid:</b>		
Issue of ordinary shares of US\$1 upon incorporation	1	—*
At 1 January 2020	10,000	—*
Capitalisation issue of shares (Note (b))	599,990,000	5,420
Issue of shares upon share offer (Note (c))	200,000,000	1,806
At 31 December 2020 and 1 January 2021	800,000,000	7,226
Issue of shares upon subscription (Note (d))	120,000,000	996
At 31 December 2021	920,000,000	8,222

\* Represents the amount less than RMB1,000

Notes:

- (a) On 10 June 2020, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 ordinary shares to HK\$40,000,000, divided into 4,000,000,000 shares each by the creation of an additional 3,962,000,000 ordinary shares.
- (b) Pursuant to the written resolution of all shareholders of the Company passed on 16 June 2020, the directors were authorised to capitalise the amount of HK\$5,999,900 from the share premium account of the Company by applying such sum towards the paying up in full at par a total of 599,990,000 ordinary shares for the allotment of ordinary shares to Bonyer Investment Limited, Rock Base Investment Limited, Bigroad Investment Limited, Hisky Investment Limited, Dibell Investment Limited, Gun Wealth Investment Limited, ZH Fortune Investment Limited, Lockxy Investment Limited, Red Fly Investment Limited, Xseven Investment Limited and Ms. Zhao Qi.
- (c) Upon listing, the Company issued 200,000,000 ordinary shares of HK\$0.01 each at a price of HK\$0.3 per share pursuant to the share offer and listing of the Company's shares on GEM of the Stock Exchange.
- (d) On 17 June 2021, the Company issued 120,000,000 ordinary shares of HK\$0.01 each at a price of HK\$0.075 per share pursuant to the subscription agreement dated 27 May 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 33. RESERVES

Details of the movement of the Group's reserves are as set out in the consolidated statement of changes in equity.

Movement of the Company's reserves are as follows:

	Share premium RMB'000	Foreign exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	—	—	—	—
Loss and total comprehensive income for the year	—	—	(1,874)	(1,874)
Exchange difference on translating of foreign operations	—	(2,547)	—	(2,547)
Capitalisation issue of shares ( <i>note 32(b)</i> )	(5,420)	—	—	(5,420)
Issue of shares upon share offer ( <i>note 32(c)</i> )	52,388	—	—	52,388
Share issue expenses	(16,326)	—	—	(16,326)
At 31 December 2020 and 1 January 2021	30,642	(2,547)	(1,874)	26,221
Loss and total comprehensive income for the year	—	—	(591)	(591)
Exchange difference on translating of foreign operations	—	(1,176)	—	(1,176)
Issue of shares upon subscription ( <i>note 32(d)</i> )	6,478	—	—	6,478
Share issue expenses	(9)	—	—	(9)
At 31 December 2021	37,111	(3,723)	(2,465)	30,923

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 33. RESERVES (CONTINUED)

The following describes the nature and purpose of each reserve within owners' equity.

<b>Reserves</b>	<b>Description and purpose</b>
Share premium	Share premium is the excess of the proceeds received over the nominal value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.
Capital reserves	The aggregate paid-up capital of the subsidiaries comprising the Group.
Statutory reserves	In accordance with the Company Law of the PRC and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in the PRC, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve funds is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalised as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of foreign operation into presentation currency
Retained earnings/(accumulated losses)	Cumulative net gains and losses recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 34. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2021 RMB'000	2020 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current asset</b>			
Investment in a subsidiary		—*	—*
Amounts due from subsidiaries		45,497	—
		<b>45,497</b>	—*
<b>Current assets</b>			
Amounts due from subsidiaries		—	39,672
Cash and cash equivalents		3	4
		<b>3</b>	39,676
<b>Current liabilities</b>			
Accruals and other payables		726	413
Amount due to a subsidiary		5,629	5,816
		<b>6,355</b>	6,229
<b>Net current (liabilities)/assets</b>		<b>(6,352)</b>	33,447
<b>Net assets</b>		<b>39,145</b>	33,447
<b>EQUITY</b>			
Share capital	32	8,222	7,226
Reserves	33	30,923	26,221
<b>Total equity</b>		<b>39,145</b>	33,447

\* Represents the amount less than RMB1,000

On behalf of the directors

**Dang Fei**  
Director

**Wang Xiaozhong**  
Director

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 35. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name	Country and date of incorporation and form of business structure	Place of incorporation/ operation and principal activity	Registered capital/issued and fully paid up share capital	Percentage of ownership interests	
				2021	2020
Bida Investment Limited ("Bida Investment")	British Virgin Islands ("BVI"), 5 November 2018, limited liability	Investment holding in the BVI	US\$1	100%	100%
China Saftower International Limited ("Saftower International")	Hong Kong, 5 December 2018, limited liability	Investment holding in Hong Kong	HK\$1	100% <sup>(1)</sup>	100% <sup>(1)</sup>
Weichi Investment Limited ("Weichi Investment")	BVI, 15 November 2018, Limited liability company	Investment holding in BVI	US\$1	100% <sup>(1)</sup>	100% <sup>(1)</sup>
Wechi Int'l Investment Limited ("Wechi Int'l")	Hong Kong, 27 December 2018, limited liability company	Investment holding in Hong Kong	HK\$1	100% <sup>(1)</sup>	100% <sup>(1)</sup>
蜀塔企業管理(廣元)有限公司 (Saftower Management (Guangyuan) Limited)* ("Saftower Management")	The PRC, 14 May 2019, limited liability company	Investment holding in the PRC	RMB26,292,114	100% <sup>(1)</sup>	100% <sup>(1)</sup>
廣元蜀塔科技有限公司 (Guangyuan Saftower Technology Company Limited)*("Guangyuan Saftower Technology")	The PRC, 14 September 2018, limited liability company	Investment holding in the PRC	RMB18,400,000	100% <sup>(1)</sup>	100% <sup>(1)</sup>
四川蜀塔實業有限公司 (Sichuan Saftower Industry Company Limited)*("Sichuan Saftower")	The PRC, 24 June 2004, limited liability company	Manufacturing, processing and sale of wires and cables and sale of aluminium products in the PRC	RMB76,000,000	100% <sup>(1)</sup>	100% <sup>(1)</sup>

\* English translated names are for identification purpose only

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 35. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Country and date of incorporation and form of business structure	Place of incorporation/ operation and principal activity	Registered capital/issued and fully paid up share capital	Percentage of ownership interests	
				2021	2020
廣元蜀塔電纜有限公司 (Guangyuan Saftower Cable Company Limited)* ("Guangyuan Saftower")	The PRC, 16 February 2015, limited liability company	Manufacturing, processing and sale of semi-finished wires and trading of aluminium products in the PRC	RMB25,200,000	100% <sup>(1)</sup>	100% <sup>(1)</sup>
四川量電電纜科技有限公司 (Sichuan Liangdian Cable Technology Company Limited)*("Sichuan Liangdian")	The PRC, 19 March 2015, limited liability company	Sales of wires and cables in the PRC	RMB100,000	100% <sup>(1)</sup>	100% <sup>(1)</sup>
Yaan Baosheng <sup>(2)</sup>	The PRC, 1 September 2020, limited liability company	processing of aluminum cast-rolled coil and aluminum plate manufacturing of foil	RMB14,000,000	70% <sup>(1)</sup>	—
廣元蜀能合金材料有限公司 (Guangyuan Shuneng Alloy Materials Company Limited)* ("Guangyuan Shuneng")	The PRC, 24 January 2018, limited liability company	Production of aluminium rod materials in the PRC	RMB6,800,000	100% <sup>(1)</sup>	100% <sup>(1)</sup>
Guangyuan Tongchuang	The PRC, 14 July 2017, limited liability company	Manufacturing, processing and sale of aluminium wires and cables and trading of aluminium products in the PRC	RMB60,000,000	56.67% <sup>(1)</sup>	56.67% <sup>(1)</sup>

Notes:

(1) Held indirectly

(2) During the year, the Group acquired a subsidiary Yaan Baosheng on 28 May 2021.

\* English translated names are for identification purpose only

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 36. NON-CONTROLLING INTERESTS

The following summarises the financial information the Group's subsidiaries with material non-controlling interests ("NCI"), based on the subsidiaries' financial statements prepared in accordance with HKFRS.

	<b>Guangyuan Tongchuang</b>	
	<b>2021</b> <b>RMB'000</b>	2020 RMB'000
<b>For the year ended 31 December</b>		
Revenue	<b>86,705</b>	159,580
Expenses	<b>(87,957)</b>	(157,665)
(Loss)/profit for the year	<b>(1,252)</b>	1,915
Total comprehensive income	<b>(1,252)</b>	1,915
(Loss)/profit allocated to NCI	<b>(543)</b>	793
Dividends paid to NCI	—	3,380
<b>For the year ended 31 December</b>		
Cash flows (used in)/from operating activities	<b>(3,224)</b>	4,353
Cash flows from/(used in) investing activities	<b>1</b>	(17)
Cash flows from/(used in) financing activities	<b>3,227</b>	(4,893)
Net cash inflows/(outflows)	<b>4</b>	(557)
<b>As at 31 December</b>		
Current assets	<b>65,029</b>	68,834
Non-current assets	<b>27,108</b>	28,669
Current liabilities	<b>(22,033)</b>	(24,690)
Non-current liabilities	<b>(8,064)</b>	(9,520)
Net assets	<b>62,040</b>	63,293
Accumulated NCI	<b>24,616</b>	25,159

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 36. NON-CONTROLLING INTERESTS (CONTINUED)

	Yaan Baosheng 2021 RMB'000
<b>For the year ended 31 December</b>	
Revenue	159,180
Expenses	(161,699)
Loss for the year	(2,519)
Total comprehensive income	(2,519)
Loss allocated to NCI	(756)
Dividends paid to NCI	—
<b>For the year ended 31 December</b>	
Cash flows used in operating activities	(19,076)
Cash flows used in investing activities	(11,088)
Cash flows from financing activities	34,643
Net cash inflows	4,479
<b>As at 31 December</b>	
Current assets	91,806
Non-current assets	27,729
Current liabilities	(108,355)
Non-current liabilities	(551)
Net assets	10,629
Accumulated NCI	3,188

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 37. ACQUISITION OF A SUBSIDIARY

On 27 May 2021, the Group, through its wholly-owned subsidiary, Saftower Management, acquired 70% of the equity interest from an independent third party, entered into an equity transfer agreement. Yaan Baosheng is engaged in the manufacturing and sale of aluminium products in the PRC. The acquisition was made with the aims to expand the Group's existing scale of operation and enlarge the Group's market presence.

The fair value of the identifiable assets and liabilities of Yaan Baosheng as at the date of acquisition were as follows:

	<b>Fair value recognised on acquisition RMB'000</b>
Property, plant and equipment	6,160
Deferred tax assets	143
Inventories	564
Other receivables and prepayments	44,784
Cash and cash equivalents	820
Trade payables	(564)
Other payables and accruals	(3,960)
Borrowing	(34,000)
Amount due to non-controlling interest	(800)
	13,147
Non-controlling interests	(3,944)
	9,203
Total identifiable net assets at fair value	9,203
Goodwill on acquisition ( <i>Note 17</i> )	597
Satisfied by cash	—
	9,800
Net cash outflow from acquisition of a subsidiary is as follows:	
Cash and cash equivalents acquired	820
Less: Cash consideration	(9,800)
	(8,980)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2021*

### **37. ACQUISITION OF A SUBSIDIARY (CONTINUED)**

- (i) The fair value of other receivables amounted to approximately RMB44,784,000. The gross amount of these other receivables is approximately RMB44,784,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.
- (ii) The goodwill of HK\$597,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.
- (iii) The acquisition-related costs of approximately RMB30,000 have been expensed and are included in administrative expenses.
- (iv) Since the acquisition date, Yaan Baosheng has contributed approximately RMB159,180,000 and RMB572,000 to the Group's revenue and loss. If the acquisition had occurred on 1 January 2021, Group revenue and loss would have been approximately RMB159,180,000 and RMB3,091,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future performance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 38. RELATED PARTY TRANSACTIONS

- (a) As at 31 December 2021 and 31 December 2020, close family members of the directors of the Company pledged their property as a security for the bank and other borrowings as set out in Note 29.
- (b) As at 31 December 2021 and 31 December 2020, directors of the Company pledged their properties as securities for the bank and other borrowings as set out in Note 29.
- (c) Compensation to key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 11(a) and certain highest paid employees as disclosed in Note 11(b), is as follows:

	<b>2021</b>	2020
	<b>RMB'000</b>	RMB'000
Salaries, allowance and other benefits	<b>1,369</b>	733
Contributions to defined contribution retirement plans	<b>71</b>	48
	<b>1,440</b>	781

- (d) As at 31 December 2021 and 31 December 2020, the Group's key management personnel and their close family members pledged their properties as securities for the bank and other borrowings as set out in Note 29.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 39. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

### (a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB2,660,000 and RMB2,660,000 respectively, in respect of lease arrangements for office (2020: of RMB1,045,000 and RMB1,045,000).

### (b) Reconciliation of liabilities arising from financing activities

	Borrowings RMB'000 (Note 29)	Interest payables RMB'000 (Note 28)	Lease liabilities RMB'000 (Note 31)	Amount due to a shareholder RMB'000 (Note 24)	Amount due to non-controlling interest RMB'000 (Note 24)
<b>At 1 January 2020</b>	99,162	109	540	—	—
Changes from financing cash flows:					
Proceeds from borrowings/a shareholder	104,712	—	—	160	—
Repayments of borrowings	(103,495)	—	—	—	—
Payments of lease liabilities	—	—	(308)	—	—
Interest paid on borrowings	—	(8,717)	—	—	—
Total changes from cash flows	1,217	(8,717)	(308)	160	—
Non-cash changes:					
New lease entered during the year	—	—	1,045	—	—
Interest expense — Lease liabilities	—	—	29	—	—
Interest expense — Borrowings	—	8,786	—	—	—
Total other changes	—	8,786	1,074	—	—
<b>At 31 December 2020 and 1 January 2021</b>	100,379	178	1,306	160	—
Proceeds from borrowings/a shareholder	153,573	—	—	7,705	1,000
Proceeds from acquisition of subsidiary	34,000	—	—	—	800
Repayments of borrowings	(119,835)	—	—	—	—
Payments of lease liabilities	—	—	(1,114)	—	—
Interest paid on borrowings	—	(6,915)	—	—	—
Total changes from cash flows	67,738	(6,915)	(1,114)	7,705	1,800
Non-cash changes:					
New lease entered during the year	—	—	2,660	—	—
Derecognised upon termination of lease	—	—	(372)	—	—
Interest expense — Lease liabilities	—	—	118	—	—
Interest expense — Borrowings	—	10,433	—	—	—
Total other changes	—	10,433	2,406	—	—
<b>At 31 December 2021</b>	168,117	3,696	2,598	7,865	1,800

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 40. CAPITAL COMMITMENTS

	2021 RMB'000	2020 RMB'000
Commitments for property, plant and equipment: Contracted but not provided	686	—

### 41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amount of each of the categories of the Group's financial instruments as at the end of the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
<b>Financial assets</b>		
At fair value through profit or loss	1,200	—
At amortised cost		
Trade and bills receivables	214,597	161,483
Deposits and other receivables	41,388	4,247
Amounts due from shareholders	169	5
Cash and cash equivalents	6,668	12,073
	<b>262,822</b>	177,808
<b>Financial liabilities</b>		
At amortised cost		
Trade payables	65,545	56,674
Accruals and other payables	23,126	6,816
Amount due to a shareholder	7,865	160
Amount due to non-controlling interest	1,800	—
Borrowings	168,117	100,379
Lease liabilities	2,598	1,306
	<b>269,051</b>	165,335

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 42. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to credit risk, market risks (including foreign currency risk and interest rates risk) and liquidity risk arising in the ordinary course of business. The Group's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Group's financial performance.

The directors of the Company are responsible for setting the objectives and underlying principles of financial risk management for the Group. The Group's management then establishes the detailed policies such as risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the board of directors.

There has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risk. If necessary, market risk exposures are measured using sensitivity analysis indicated below.

### (a) Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade receivables, deposits and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

#### ***Trade receivables arising from contracts with customers***

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Normally, the Group does not obtain collateral from customers except a customer, who was granted a credit period of 365 days in respect of sale of aluminium and copper cables and has business relationship with the Group since 2015. The customer pledged the assets in favour of the Group. During the year ended 31 December 2021, the pledged collateral was released and the credit period granted was resumed to be 90 days. Therefore, the management of the Group is of the opinion that the Group does not have significant credit risk exposure of the customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. Expected loss rates are based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment which may impact the customers' ability to repay the outstanding balances in order to estimate the ECLs for the impairment assessment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (a) Credit risk and impairment assessment (Continued)

##### Trade receivables arising from contracts with customers (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables according to their past due dates:

	Gross carrying amount RMB'000	Lifetime ECLs RMB'000	Net carrying amount RMB'000	Expected loss rate %
<b>At 31 December 2021</b>				
Current (not past due)	98,983	(183)	98,800	0.18%
Past due 1 to 60 days	49,336	(622)	48,714	1.26%
Past due 61 to 180 days	4,903	(66)	4,837	1.35%
Past due 181 to 365 days	44,314	(556)	43,758	1.25%
Past due over 365 days	22,507	(4,119)	18,388	18.30%
	<b>220,043</b>	<b>(5,546)</b>	<b>214,497</b>	<b>2.52%</b>
<b>At 31 December 2020</b>				
Current (not past due)	63,595	(544)	63,051	0.86%
Past due 1 to 60 days	36,449	(309)	36,140	0.85%
Past due 61 to 180 days	9,509	(83)	9,426	0.87%
Past due 181 to 365 days	42,544	(414)	42,130	0.97%
Past due over 365 days	11,849	(1,113)	10,736	9.39%
	163,946	(2,463)	161,483	1.50%

Movement in the loss allowance account in respect of trade and other receivables during the year is as follows:

	Trade receivables		Other receivables		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
<b>At 1 January</b>	2,463	2,154	33	96	2,496	2,250
Impairment losses recognised during the year (Note 10)	3,083	309	40	—	3,123	309
Reversal of impairment losses previously recognised during the year (Note 10)	—	—	—	(63)	—	(63)
<b>At 31 December</b>	<b>5,546</b>	2,463	<b>73</b>	33	<b>5,619</b>	2,496

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk and impairment assessment (Continued)

#### **Trade receivables arising from contracts with customers (Continued)**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or customers having similar characteristics. At the end of reporting period, 46.0% (2020: 50.3%) of the total trade receivables were due from the Group's five largest customers, and 23.8% (2020: 29.1%) of total trade receivables were due from the Group's largest customer respectively.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

#### **Deposits and other receivables**

As at 31 December 2021 and 31 December 2020, the management of the Group takes into account the historical default experience and forward-looking information, as appropriate, for example the Group considers the consistently low historical default rates of counterparties and concludes that credit risk inherent in the Group's outstanding deposits and other receivables is insignificant. The Group has assessed the ECLs for deposits and other receivables under the 12-month ECL method and recognised allowance for ECLs on other receivables of RMB40,000 (2020: reversal of ECLs on other receivables of RMB63,000) during the year ended 31 December 2021.

The rates of ECLs for deposits and other receivables of 12-month ECL assessment range from 0.07% to 1.23% as at 31 December 2021 (2020: 0.06% to 3.14%).

#### **Amounts due from shareholders**

The management of the Group considers the probability of default is negligible in view of the latest repayment history of the shareholders and no loss allowance was recognised during the year ended 31 December 2021 (2020: Nil).

#### **Cash and cash equivalents**

The management of the Group considers the probability of default is negligible as the deposits are placed in banks having good reputation and no loss allowance was recognised during the year ended 31 December 2021 (2020: Nil).

#### **Guarantees**

The Group's policy is to provide financial guarantees only to liabilities arising from wholly-owned subsidiaries.

The maximum exposure of the Group in respect of the intra-group financial guarantee as at 31 December 2021 is representing the total banking facility attributable from drawdown by the relevant subsidiaries of RMB81.3 million (2020: RMB69.7 million). At the reporting date, the Group does not consider it probable that a claim will be made against the Group entity under the intra-group financial guarantee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) Foreign currency risk

The Group has no significant foreign currency risk as its business transactions, majority of its recognised assets and liabilities are principally denominated in RMB, its functional currency. Accordingly, sensitivity analysis has not been disclosed. The Group currently does not have any hedge instruments to hedge against other foreign currency transactions.

#### (c) Interest rate risk

The Group's interest-rate risk mainly arises from borrowings and lease liabilities as disclosed in Notes 29 and 31. Borrowings were issued at floating rate and at fixed rates which expose the Group to cash flow interest risk and fair value interest-rate risk respectively. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The following table details the interest rate profile of the Group's borrowings and lease liabilities at the end of the reporting period.

	2021		2020	
	Effective interest rate %	Carrying amount RMB'000	Effective interest rate %	Carrying amount RMB'000
<b>Fixed rate liabilities:</b>				
Borrowing	3.45%–23.76%	148,017	5.22%–17.10%	78,879
Lease liabilities	4.75%–12.53%	2,598	4.99%–5.36%	1,306
<b>Variable rate liabilities:</b>				
Borrowings	4.05%–5.85%	20,100	4.15%–5.62%	21,500

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings and bank deposits. The analysis is prepared assuming that the amount of liabilities outstanding at the end of reporting period were outstanding for the whole year. 100 basis points increase or decrease represent management's assessment of the reasonably possible change in interest rates of borrowings and bank deposits.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of reporting period do not reflect the exposures during the year.

If interest rates on borrowings and bank deposits had been 100 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the years are as follows:

	2021 RMB'000	2020 RMB'000
Increase/(decrease) in profit for the year		
— as a result of increase in interest rate	(101)	(71)
— as a result of decrease in interest rate	101	71

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Liquidity risk

In the management of liquidity risk, the Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants in order to maintain sufficient reserve of cash and adequate committed lines of funding from major banks, if necessary, to meet its liquidity requirements in the short and long term.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities at the end of reporting period. 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.

For bank borrowings and lease liabilities which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the year.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
<b>At 31 December 2021</b>					
Trade payables	65,545	65,545	65,545	—	—
Accruals and other payables	23,126	23,126	23,126	—	—
Amount due to a shareholder	7,865	7,865	7,865	—	—
Amount due to non-controlling interest	1,800	1,800	1,800	—	—
Borrowings	168,117	176,722	175,190	1,457	75
Lease liabilities	2,598	2,716	1,721	978	17
	<b>269,051</b>	<b>277,774</b>	<b>275,247</b>	<b>2,435</b>	<b>92</b>
<b>At 31 December 2020</b>					
Trade payables	56,674	56,674	56,674	—	—
Accruals and other payables	6,816	6,816	6,816	—	—
Amount due to a shareholder	160	160	160	—	—
Borrowings	100,379	105,126	101,722	2,151	1,253
Lease liabilities	1,306	1,397	625	392	380
	<b>165,335</b>	<b>170,173</b>	<b>165,997</b>	<b>2,543</b>	<b>1,633</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 42. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (e) Fair value measurement

The fair value of forward contracts classified as financial assets at fair value through profit or loss traded on active liquid markets is determined with reference to quoted market prices in the recognised future exchange at the end of reporting period. A market is regarded as active and liquid if the quoted market prices are readily and regularly available from a recognised future exchange, broker or regulatory agency, which represent actual and regularly occurring market transactions on an arm's length basis. As at 31 December 2021, the equity securities investment is included in Level 1 of the fair value measurement hierarchy (see below for definition);

HKFRS 7 "Financial Instruments: Disclosure" requires the disclosure of financial instruments that are measured at fair value categorised by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs for the asset or liability that are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial instruments that are measured at fair value as at 31 December 2021:

	31 December 2021			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial assets at fair value through profit or loss</b>				
Forward contracts	1,200	–	–	1,200

As at 31 December 2020, no financial instruments classified as fair value through profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

### 43. CAPITAL MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of debts, which includes amount due to a shareholder, borrowings and lease liabilities, cash and cash equivalents and total equity, comprising share capital and reserves. The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The net debt to equity ratio at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
Borrowings	168,117	100,379
Lease liabilities	2,598	1,306
Amount due to a shareholder	7,865	160
Amount due to non-controlling interest	1,800	—
Less: Cash and cash equivalents	(6,668)	(12,073)
Net debt	173,712	89,772
Total equity	161,091	176,144
Net debt to equity ratio	108%	51%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2021*

### **44. EVENTS AFTER THE REPORTING PERIOD AND EFFECT OF COVID-19**

As at the date of approval of the financial statements, the Group has no significant event after the reporting period that needs to be disclosed.

### **45. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorised for issue by the directors on 31 March 2022.

# FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last four financial years is set out below:

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	544,389	518,159	685,530	552,656
Cost of sales	(538,333)	(481,703)	(631,656)	(514,300)
<b>Gross profit</b>	<b>6,056</b>	36,456	53,874	38,356
Other income and gains	15,033	8,222	20,838	9,249
Selling and distribution expenses	(4,498)	(6,006)	(9,068)	(4,999)
Administrative and other expenses	(29,749)	(18,591)	(15,491)	(12,235)
Impairment losses on trade and other receivables	(3,123)	(246)	—	—
Impairment losses on property, plant and machinery	(2,637)	—	—	—
Listing expenses	—	(7,795)	(8,920)	(3,851)
Finance costs	(11,729)	(9,374)	(7,877)	(6,515)
Share of profit of a joint venture	—	—	538	1,548
<b>(Loss)/profit before income tax credit/(expense)</b>	<b>(30,647)</b>	2,666	33,894	21,553
Income tax credit/(expense)	4,124	124	(4,141)	(4,157)
<b>(Loss)/profit for the year</b>	<b>(26,523)</b>	2,790	29,753	17,396
<b>Other comprehensive income:</b> <i>Item that may be reclassified subsequently to profit or loss</i>				
Exchange differences on translating foreign operations	61	(535)	—	—
<b>Total comprehensive income for the year</b>	<b>(26,462)</b>	2,255	29,753	17,396
<b>Profit for the year attributable to:</b>				
Owners of the Company	(25,224)	1,895	26,607	17,486
Non-controlling interests	(1,299)	895	3,146	(90)
	<b>(26,523)</b>	2,790	29,753	17,396
<b>Total comprehensive income for the year attributable to:</b>				
Owners of the Company	(25,163)	1,360	26,607	17,486
Non-controlling interests	(1,299)	895	3,146	(90)
	<b>(26,462)</b>	2,255	29,753	17,396
<b>Assets and liabilities</b>				
Current assets	310,760	214,756	204,838	138,192
Non-current assets	159,051	134,318	129,449	130,387
Current liabilities	303,345	165,536	187,504	178,083
Non-current liabilities	5,375	7,394	7,382	3,135