SAFTOWER

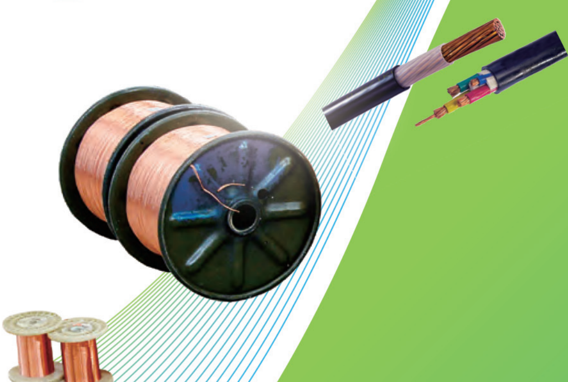
蜀塔集团

中國蜀塔國際控股集團有限公司

China Saftower International Holding Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8623



ANNUAL REPORT

2022

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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

CL Partners CPA Limited
(Certified Public Accountants)

COMPLIANCE ADVISER

Alliance Capital Partners Limited

LEGAL ADVISER

(As to Hong Kong law)
ONC Lawyers

REGISTERED OFFICE

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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

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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

8623

COMPANY'S WEBSITE

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 2022.

I must admit that the year 2022 has been challenging for the Company. Despite our best efforts, our operations did not perform as well as we had hoped. We faced several headwinds, including increased competition, supply chain disruptions, and rising input costs. As a result, our financial performance was not up to the mark, and we did not meet our targets.

However, I want to assure you that we are taking the necessary steps to address the issues we faced in 2022. We are reviewing our operations, streamlining our supply chain, and investing in technology to improve our efficiency and productivity. We are confident that these measures will yield positive results in the coming years.

In conclusion, I want to thank our shareholders for their continued support during these challenging times. We remain committed to delivering value to our shareholders, and we will do everything in our power to ensure that our company returns to a path of growth and profitability.

On behalf of the Board
Dang Fei
Chairman and Executive Director

31 March 2023

FINANCIAL HIGHLIGHTS

CONSOLIDATED FINANCIAL PERFORMANCE

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Revenue	**757,901**	544,389
Loss before income tax credit	**(32,000)**	(30,647)
Loss for the year attributable to the owners of the Company	**(21,527)**	(25,224)

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Assets		
Non-current assets	**163,379**	159,051
Current assets	**229,093**	310,760
Total assets	**392,472**	469,811
Equity and liabilities		
Total equity	**135,509**	161,091
Non-current liabilities	**5,260**	5,375
Current liabilities	**251,703**	303,345
Total liabilities	**256,963**	308,720
Total equity and liabilities	**392,472**	469,811
Net current (liabilities) assets	**(22,610)**	7,415
Total assets less current liabilities	**140,769**	166,466

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 People's Republic of China (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 produces 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 2022 (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, which 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.

The business environment for manufacturers and suppliers of wires and cables in the PRC can be challenging. There is intense competition in the market, with numerous manufacturers and suppliers vying for market share. This can lead to price wars and margin pressures, particularly for smaller players who may struggle to compete with larger, more established firms.

We, as a manufacturer and supplier, must ensure that our products meet these standards, which can be time-consuming and expensive. Also, our industry is subject to cyclical demand, which makes it difficult for businesses to plan for the future. When demand is high, there may be shortages of raw materials or labor, which can drive up costs. Conversely, during periods of low demand, businesses may struggle to generate revenue.

During the year ended 31 December 2022, the Group recorded loss of approximately RMB25.6 million. 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

Despite the challenges faced by manufacturers and suppliers of wires and cables in the PRC, there are also several factors that could help to sustain and grow the industry.

One of the key drivers of growth in the industry is increasing demand for wires and cables in various applications, including automotive, construction, and telecommunications. The increasing demand is driven by ongoing urbanization, infrastructure development, and technological advancements, among other factors.

Moreover, the Chinese government has been investing heavily in infrastructure development, which is expected to continue in the coming years. This includes investments in power grids, high-speed railways, and 5G networks, all of which require significant amounts of wires and cables. This could create new opportunities for manufacturers and suppliers in the industry.

Another promising trend is the increasing adoption of renewable energy technologies, such as wind and solar power. These technologies require large amounts of wires and cables to connect power generation facilities to the grid, creating new demand for the industry.

Furthermore, as the PRC continues to develop its domestic market, there may be opportunities for manufacturers and suppliers to shift their focus from exports to the domestic market. This could help to insulate businesses from the impact of trade tensions and other external factors.

Accordingly, we are confident our financial performance will improve in the forseeable future.

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 (loss) profit		Gross (loss) profit margin	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)	**2022 RMB'000 (unaudited)**	2021 RMB'000 (unaudited)	**2022 %**	2021 %
Classic finished wires and cables						
Copper wires and cables	**8,151**	39,159	**(885)**	1,216	**(10.9)**	3.1
Aluminium wires and cables	**140,426**	100,990	**674**	4,327	**0.5**	4.3
Special finished wires and cables						
Aluminium wires and cables	**–**	53,618	**–**	6,871	**–**	12.8
Semi-finished wires						
Bare copper wires	**24,015**	146,547	**30**	1,284	**0.1**	0.9
Aluminium rods	**38,624**	44,687	**390**	131	**1.0**	0.3
Cast-rolled coil	**543,986**	159,180	**(15,859)**	(7,798)	**(2.9)**	(4.9)
Others	**2,699**	208	**73**	25	**2.7**	12.0
	757,901	544,389	**(15,577)**	6,056	**(2.1)**	1.1

During the year ended 31 December 2022, 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 RMB757.9 million for the year ended 31 December 2022, representing an increase of approximately 39.2% as compared with that in 2021, The increase in revenue was mainly due to contribution from the sales of cast-rolled coil, of approximately RMB544.0 million which increased by approximately RMB384.8 million comparing to last year.

Cost of sales

During the year ended 31 December 2022, the cost of sales of 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 RMB538.3 million for the year ended 31 December 2021 to RMB773.5 million for the year ended 31 December 2022, representing an increase of RMB235.1 million, or 43.7%. 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 2022.

Gross (loss)/profit and gross (loss)/profit margin

For the year ended 31 December 2022, our gross loss amounted to RMB15.6 million with a gross loss margin of 2.1% whereas gross profit of approximately RMB6.1 million was reported for the year ended 31 December 2021, with gross profit margin of 1.1%. The increase in gross loss margin during the Year under review was mainly due to (i) the inflation of materials mentioned above and (ii) gross loss of approximately RMB15.9 million recorded from the sales of cast-rolled coil for the year ended 31 December 2022. The Group engages in this gross loss trade because sales of cast-rolled coil is encouraged by the government that government grant of approximately RMB12.2 million was received during the year ended 31 December 2022. It is expected than the product will report profit ultimately.

Other income and gains

Other income and gains increased from approximately RMB15.0 million for the year ended 31 December 2021 to approximately RMB24.8 million for the year ended 31 December 2022. The increase is mainly due to the increase of the government grants of approximately RMB3.8 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, the receipt of a value-added tax subsidy of 30% on products and labour services for comprehensive utilization of resources and the gain on the derecognition of trade payables of approximately RMB3.9 million increased in the year ended 31 December 2022 comparing to last year.

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 increased by RMB1.1 million or 24.9% for the year ended 31 December 2022, which was due to the Group enlarging the market share in cast-rolled coil.

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 decreased from RMB29.7 million for the year ended 31 December 2021 to RMB22.0 million for the year ended 31 December 2022, representing a decrease of RMB7.8 million, or 26.1%. The decrease was mainly due to decrease of legal and profession fee of approximately RMB3.3 million which was incurred for the acquisition in year ended 31 December 2021 and no such expense in current year. Also the Group reduce the general expense in current year.

Finance costs

Finance costs of the Group had decreased from approximately RMB11.7 million for the year ended 31 December 2021 to approximately RMB10.7 million for the year ended 31 December 2022. The decrease in amount was mainly attributable to the decrease in the average utilisation of borrowings during the year ended 31 December 2022.

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 RMB2.2 million from approximately RMB4.1 million for the year ended 31 December 2021 to approximately RMB6.4 million for the year ended 31 December 2022. 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 2022.

Loss for the year

As a result of the foregoing, the Group recorded a loss attributable to the owners of the Company amounted to approximately RMB21.5 million, as compared to the loss attributable to owners of the Company of approximately RMB25.2 million in the corresponding period in 2021. The Directors consider that the increase in net loss was mainly attributable to the decrease in gross profit of approximately RMB21.6 million and the decrease in gross profit margin due to the increase in the cost of raw materials for the year ended 31 December 2022 as compared to the corresponding period in 2021. The net loss margin for the year is approximately 3.4% (2021: 4.9%).

DIVIDEND

The Directors resolved not to recommend the payment of any final dividend for the year ended 31 December 2022.

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 2022, the Group had cash and cash equivalents of approximately RMB0.7 million and (31 December 2021: RMB6.7 million).

As at 31 December 2022, the total equity attributable to equity holders of the Company amounted to approximately RMB111.8 million (31 December 2021: approximately RMB133.3 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 2022 was 97.0% (31 December 2021: 112.0%). During the year ended 31 December 2022, 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 2022, the following assets were pledged to secure the Group's bank and other borrowings:

(a) Buildings with an aggregate net carrying amount of approximately RMB44,719,000 as at 31 December 2022 (31 December 2021: RMB46,685,000);

(b) Land use rights with an aggregate net carrying amount of approximately RMB5,804,000 as at 31 December 2022 (31 December 2021: RMB6,460,000);

(c) Plant and machinery with an aggregate net carrying amount of approximately RMB19,085,000 as at 31 December 2022 (31 December 2021: RMB23,523,000); and

CAPITAL COMMITMENT

The Group had no capital commitments as at 31 December 2022 (31 December 2021: RMB686,000).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2022.

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 costs 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 the 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 operates 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 2022. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure shared when the needs arise.

SEGMENT INFORMATION

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group employed a total of 183 full-time employees (31 December 2021: 221 full-time employees). Total employee benefit expenses for the year ended 31 December 2022 and the year ended 31 December 2021 were approximately RMB12.1 million and approximately RMB12.2 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 reviewed 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

There was no significant investment held, material acquisition or disposal of subsidiaries and affiliated companies during the year ended 31 December 2022, and there was no plan for material investment or capital assets as at the date of this report.

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 2022 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 whom have confirmed that they have fully complied with the required standard of dealings set out in the Model Code 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 separately taken 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 carrying out both roles can bring strong and consistent leadership for the Group and 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 comprises 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 (the "**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.

The 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

Mechanism ensuring sufficient independence views to the Board

The Board recognises Board independence is critical to good corporate governance. The Company has put in place the mechanisms to ensure a strong independence element on the Board, which are summarised below:

Board Composition

The Board endeavours to ensure the appointment of at least three independent non-executive Directors and at least one-third of the Board members being independent non-executive Directors (or such higher threshold as may be required by the GEM Listing Rules from time to time). Apart from complying with the requirements prescribed by the GEM Listing Rules as to the composition of certain Board committees, independent non-executive Directors will be appointed to other Board committees as far as practicable to ensure independent views are available.

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.

Independence Assessment

The Nomination Committee shall strictly adhere to the nomination policy and the independence assessment criteria as set out in the GEM Listing Rules with regard to the nomination and appointment of independent non-executive Directors.

Each independent non-executive Director is also required to inform the Company as soon as practicable if there is any change in his own personal particulars that may materially affect his independence.

The Nomination Committee is mandated to assess annually the independence of all independent non-executive Directors by reference to the independence criteria as set out in the GEM Listing Rules to ensure that they can continually exercise independent judgement.

The Company has received confirmations of independence from Dr. Zuo Xinzhang, Mr. Chan Oi Fat and Ms. Hu Xiaomin, being 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.

Decision Making

All Directors (including independent non-executive Directors) are entitled to seek further information and documentation from the management on the matters to be discussed at board meetings. They can also seek assistance from the Company's company secretary and, where necessary, independent advice from external professional advisers at the Company's expense.

All Directors (including independent non-executive Directors) shall not vote or be counted in the quorum on any board resolution approving any contract or arrangement in which such Director or any of his close associates has a material interest.

The Board had made an annual review on the implementation of the abovementioned mechanisms and was of the view that the abovementioned mechanisms had been satisfactorily implemented.

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 the Board.

At present, Audit Committee comprises 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 the Audit Committee.

During the year ended 31 December 2022, 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 2021, quarterly financial statements for the three months ended 31 March 2022 and the nine months ended 30 September 2022 and interim financial statements for the six months ended 30 June 2022 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

— 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 2022 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 2022, 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 2022.

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 2022 is set out below:

Remuneration band (RMB)	Number of person(s)
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 the 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 2022, 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 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.

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.

Tasks Conducted by the Nomination Committee

The Nomination Committee has, during the Year, conducted the following tasks:

(i) reviewed and considered the structure, size and composition of the Board;

(ii) assessed the independence of the independent non-executive directors; and

(iii) considered the Directors to retire and reappoint at the forthcoming annual general meeting of the Company.

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 the 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.

The Company is conscious of maintaining Board diversity with an appropriate level of female members on the Board, which shall not be less than one female member with immediate effect and may further increase in the next five years. During the Year and as at the date of this Report, the Board comprised two female Board members, in which case the Board considered gender diversity has been archived. While conscious efforts are being taken by the Company to fulfil its Board Diversity Policy, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

The Nominations Committee will review the implementation of the Board Diversity Policy at least annually and make recommendation on any proposed changes to the Board for the Board's review and approval to ensure its continued appropriateness and effectiveness.

For recruiting potential successors to the Board to archive Board diversity including gender diversity, the Board has prepared a list of desirable skills, experience, qualifications, gender or perspectives which the candidate should have. 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.

During the year ended 31 December 2022, the Nomination Committee reviewed the Board Diversity Policy and reviewed the independence of each of the independent non-executive Directors. The Board had reviewed the implementation and effectiveness of the Board Diversity Policy and was of the view that the Board Diversity Policy and its implementation was sufficient and effective.

Workforce Diversity

The Group strictly adheres to fair and appropriate employment practices and labour standards. With an anti-discriminatory and equal-opportunity policy in place, the Group provides job applicant and employees with equal opportunities of employment and promotion, and prohibits all forms of discrimination on gender, religion, race, disability or age.

As at 31 December 2022, the Group had a total of 183 staff members (including members of the senior management but excluding Directors). The gender composition of the staff members (including members of the senior management but excluding Directors) was approximately 74% male staff members and 26% female staff members.

The Board strived to achieve gender diversity of the workforce of the Group during the Year. The plan for the Group in terms of gender diversity in workforce is to continue its efforts to achieve the balance of gender diversity in the foreseeable future.

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 the 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 had made an annual review on the implementation of the abovementioned mechanisms to ensure independent views and input are available to the Board and was of the view that the abovementioned mechanisms had been satisfactorily implemented.

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 2022, six Board meetings were held and the attendance record of each Director in the Board meetings and meetings of the Board Committees are set out in the table below:

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee Meetings	Annual General Meeting held on 27 May 2022
Executive Directors					
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
Non-executive Director					
Mr. Wang Haichen	6/6	N/A	N/A	N/A	1/1
Independent non-executive Directors					
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:

(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 takes 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 2022, 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 complied with the CG Code by participating in sufficient relevant continuous professional training and 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 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 37, 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 2022, 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. Mr. Woo has been admitted as an associate of the Institute of Chartered Accountants in England and Wales in February 2023.

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 2022 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 review 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.

Upon conducting the annual review on the internal control and risk management of the Group, the Audit Committee and the Board were satisfied that 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 2022 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 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

During the Year, the auditor did not perform any non-audit services to the Group. For the year ended 31 December 2022, the total remuneration paid or payable to the Company's auditor, CL Partners CPA Limited, for audit and audit related services amounted were as follows:

Nature of services	Amount RMB'000
Audit services	776

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 Shareholders' Communication Policy

The Company has adopted a shareholders' communication policy, details of which is summarised below:

Shareholders' Meetings

- The annual general meetings and other general meetings of the Company are the primary communication forum between the Company and the Shareholders. Shareholders are encouraged to participate in general meetings physically or to appoint proxies to attend and vote at such meetings for and on their behalf if they are unable to attend.

- Notices of the general meetings, related circulars and forms of proxy are provided within a prescribed time prior to the general meetings on Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.saftower.cn) and by post to the Shareholders.

- The Directors, in particular, the chairman of the Board committees or their delegates, appropriate senior executives and external auditor will attend the general meetings to answer the Shareholders' questions.

- The chairman of the general meetings will propose to vote the resolutions (except resolutions which relate purely to procedural or administrative matters) by poll in accordance with the Articles. Scrutineer will be appointed for the vote-taking at the general meetings and the voting results will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.saftower.cn) subsequent to the close of the general meetings.

Corporate Communications

- The Company will send (by post or by electronic means as permitted by the Articles or the GEM Listing Rules) corporate communications of the Company, which include annual reports, interim reports, notices of shareholders' meeting, listing documents, circulars, and proxy forms, to the Shareholders.

- Shareholders are encouraged to provide their up-to-date contact details to the Hong Kong branch share registrar of the Company in order to facilitate timely and effective communications.

Company's Website

- The Company's website (www.saftower.cn) provides the Shareholders with corporate information on the Group. It also provides information on corporate governance of the Group and the compositions and functions of the Board and the committees of the Board.

- In addition to the "Relationship" section in which corporate communications of the Company are posted as soon as practicable following their release on the Stock Exchange's website (www.hkexnews.hk), press releases and newsletters issued by the Company from time to time are also available on the Company's website to facilitate communication between the Company, Shareholders and investment community.

- Information on the Company's website is updated on a regular basis.

Communication with the Company

Shareholders may raise questions, request for publicly available information and provide comments and suggestions to the Directors and management of the Company. Such questions, requests, comments and suggestions can be addressed to the Company by post to Unit D, 17/F., 8 Hart Avenue, Tsim Sha Tsui, Kowloon, Hong Kong, or by the following means:

Telephone number: (852) 3757 3150
Email address: luoxi@saftower.cn

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

The Company highly values the view and comment by the Shareholders' and relevant stakeholders to the Company and would invite the Shareholders' and relevant shakeholders to communicate with the Company by employing the abovementioned means. In view of the above shareholders' communication means and measures adopted by the Company, the Board is of the view that the shareholders' communication policy implemented during the Year was sufficient and effective.

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 of Articles of Association 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 requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) 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

Introduction

Report Overview

China Saftower International Holding Group Limited (the "**Company**", together with its subsidiaries, the "**Group**" or "**we**") is a regional manufacturer and supplier of wires and cables, and processor of aluminum cast rolling coil and aluminum sheet and foil, with integrated production facilities situated in Chengdu, Guangyuan and Yaan of Sichuan Province, China ("**China**"). The Group's products can be broadly classified into five categories: (i) finished wires and cables; (ii) semi-finished wires; (iii) aluminium products; (iv) cast rolling coil; and (v) other products, which comprise cable accessories. The Group's portfolio of finished wires and cables products comprises classic and special products. Apart from finished wires and cables, the Group also produces semi-finished wires comprising aluminium rods and bare copper wires.

This environmental, social and governance ("**ESG**") report (this "**Report**") summarises the Group's initiatives, plans and performance in ESG and demonstrates its commitment to sustainable development. The Group adheres to a sustainable approach to ESG management and is committed to the effective and responsible management of the Group's ESG issues as a core part of its business strategy, as we believe this is the key to our continued success in the future.

ESG Governance Structure

The Group believes that a strong governance structure is essential for the effective management of ESG related matters. The board of directors (the "**Board**") has overall responsibility for the Group's ESG matters, including formulating strategies, monitoring the Group's ESG performance, ensuring the effectiveness of risk management and internal control systems, and approving disclosures in ESG reports. The Board discusses ESG related affairs at least once a year to formulate and review ESG-related management policies, strategies, principles, policies, targets and priorities, to ensure alignment of its ESG management with the times and its general orientation.

In order to promote unified ESG management within the Group, the Group has established an ESG working group ("**ESG Working Group**") to assist the Board on ESG-related matters. The ESG Working Group is composed of senior management and staff from different departments. It reports its work progress to the Board at least once a year, and is responsible for implementing the Group's ESG measures, assisting in the identification and evaluation of the Group's ESG risks, collecting and analysing ESG data, reviewing ESG-related matters across different parts of the Group, formulating and regularly reviewing the progress of ESG targets, ensuring compliance with ESG-related laws and regulations, and advising the Board on ESG matters.

In order to gain an in-depth understanding of stakeholders' expectations for the Group's sustainable development and to improve the Group's ESG performance, the Board and the ESG Working Group continue to communicate with the Group's stakeholders and invite them on a regular basis to participate in materiality assessments, refer to the opinions of different stakeholders to determine the priority of different ESG issues, and formulate the Group's sustainable development strategy. Information on stakeholder communication channels and the materiality assessment conducted by the Group are set out in the sections "Stakeholder Engagement" and "Materiality Assessment" respectively.

In response to China's "carbon neutrality" goal and stakeholders' expectations for the Group in the materiality assessment, and to further enhance the Group's performance in ESG aspects, the Group has set environmental targets, including emissions reduction, waste management and resource conservation. The Board will review progress towards the relevant targets annually and ensure that the ESG Working Group has sufficient resources to achieve these targets. The Group believes that through the setting of targets and the implementation of relevant measures, the Group will continuously enhance the ESG awareness of employees, promote behavioural changes, and ultimately integrate the concept of sustainability into the operation and development of the Group.

This Report was approved by the Board.

Report Framework and Principles

This Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") as set out in Appendix 20 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Group's corporate governance practices are set out in the Corporate Governance Report of the Group's Annual Report 2022.

The Group has attached great concern to materiality, quantitative, balance and consistency in the preparation of this Report. The Group has applied these reporting principles in the above-mentioned ESG reporting guidelines, details of which are as follows:

Materiality: The Group's major ESG issues were analysed through materiality assessment, and the identified major issues were taken as the focus of the preparation of this Report. The importance of different material issues has been reviewed and confirmed by the Board and the ESG Working Group.

Quantitative: This Report compares quantitative key performance indicators ("**KPIs**") where appropriate and sets out in explanatory notes the criteria, methodology, assumptions and sources of key conversion factors used to calculate the relevant information.

Balance: This Report provides an unbiased description of the Group's performance and avoids misleading readers with inappropriate selection, omissions and presentation formats.

Consistency: This Report describes data with changes to disclosure and calculation methods where appropriate. Unless otherwise stated, the preparation method for this Report is consistent with that for the ESG report ended 31 December 2021 ("**2021**").

Reporting Period

This Report details the ESG activities, challenges and initiatives achieved by the Group for the year ended 31 December 2022 (the "**Reporting Period**" or "**2022**").

Reporting Scope

This Report will cover the Group's efforts and contributions to the environment and society during the Reporting Period. The scope of this Report is determined by the management of the Group after considering the resource allocation of the Group and the operating conditions of different segments, and includes the subsidiaries over which the Group holds actual operating rights, including the Group's plants located in Chengdu, Guangyuan and Yaan, China (plants located in Yaan has been included in the reporting scope from May 2021), as well as the office in Chengdu headquarter, which is in line with the scope of the Group's annual report. Save as otherwise specified, we obtained ESG KPIs through the Group's operational control mechanisms. After the Group's data collection system becomes more mature and its sustainability development work is deepened, the Group will continue to expand the scope of disclosure in the future.

Stakeholder Engagement

We maintain ongoing communication with various stakeholders including shareholders and investors, employees, customers, suppliers and subcontractors, the community and the public, as well as regulators and government agencies, in an effort to balance the views and interests of all parties in order to set the long-term direction for us and the communities in which we operate.

The Group's communication channels with key stakeholders and their expectations and concerns about the Group are as follows:

Stakeholders	Expectations and concerns	Communication channels
Shareholders and investors	• Compliance with laws and regulations • Risk management • Corporate governance system • Investment return • Information transparency	• Annual general meetings and other general meetings • Financial reports • The Group's announcements and notices • The Group's website and email • Meetings/conference calls
Employees	• Entitlements and benefits • Employee health and safety • Career development and training • Labour rights • Corporate culture	• Training and seminars • Regular performance evaluation • Employee suggestion box • Internal announcements and newsletters • Cultural and sports activities • Work sessions/special sessions • Career development communication mechanism
Customers	• Safe and quality products • Customer service • Compliance with laws and regulations	• Customer support hotline and email • Meetings • Customer satisfaction survey • Visits and communication
Suppliers and subcontractors	• Fair competition • Stable demand • Maintenance of a good relationship with the Company • Corporate Reputation	• Business meetings, emails and phone calls • Audit and evaluation • Opinion survey • Instant messaging software
Community and public	• Information transparency • Environmental protection • Community engagement • Economic development	• Community events • ESG reports • Media • Press releases/announcements • Results announcements • Management interviews

Stakeholders	Expectations and concerns	Communication channels
Regulators and government agencies	• Compliance with laws and regulations • Promotion of economic development and employment • Fulfillment of tax liabilities • Stable business operations	• Compliance advisors • Site visits • Financial reports • Progress reports • Meetings • Contact by phone/email • Supervision and inspection

We are committed to working and communicating with our stakeholders to enhance the Group's ESG performance and to continue to create greater value for our country and society.

Materiality Assessment

The management and staff of each of the Group's key functions have been involved in the preparation of this Report to assist the Group in reviewing its operations and identifying relevant ESG issues. In order to better understand stakeholders' views and expectations of the Group's ESG performance, we have developed a questionnaire based on key ESG issues. We distributed questionnaires to the Group's stakeholders, including but not limited to employees and management, and analysed the results of the questionnaires and compiled a matrix of the significant ESG issues of the Group.

The following is a matrix of the significant ESG issues of the Group as set out in this Report:

Material Issues	Priority Number	Material Issues	Priority Number
Emissions	1	Employee Development and Training	8
Resources Consumption	2	Supply Chain Management	9
Climate Change	3	Product Quality Management	10
Employee Recruitment, Promotion and Dismissal	4	Customer Services	11
Employee Remuneration and Benefits	5	Privacy Protection	12
Equal Opportunity and Anti-discrimination	6	Anti-corruption	13
Employee Health and Safety	7	Community Investment	14

During the Reporting Period, the Group confirmed that it has established appropriate and effective management policies and control systems for ESG matters and that the disclosures made were in compliance with the requirements of the ESG Reporting Guide.

A. Environment

A1. Emissions

The Group adheres to a sustainable development strategy in its operations, emphasises good environmental management, and has established procedures to protect the environment and make every effort to reduce the environmental impact of existing business activities, while supporting nature and environmental conservation programmes. During the Reporting Period, the Group was not aware of any material non-compliance with the relevant laws and regulations on environmental protection that have a significant impact on the Group, including but not limited to the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Promoting Clean Production, the Water Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste and the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution. In addition, the Group has strictly complied with all national and local standards on emissions control, pollution and discharge to surface and groundwater, and noise control. To reduce environment pollution by its operations, the Group has established its Environmental Protection Policy, which specifies the regulations on environmental protection responsibilities, pollution control and environmental monitoring, to coordinate work related to environmental protection and ensure economic construction and environmental protection are planned and developed simultaneously.

Emissions control

Air emissions

In the course of the Group's operations, emissions are mainly from fuel consumed by the Company's vehicles, which mainly includes nitrogen oxides ("NO_x"), sulphur oxides ("SO_x") and particulate matter ("PM"). To address the above-mentioned emissions, the Group is actively taking the following emissions reduction measures:

- We replaced the original high energy-consuming daily office vehicles with economical vehicles and the daily delivery vehicles with new energy vehicles, thereby significantly reducing emissions;

- We take good care of the vehicles to ensure that they are in the best possible condition. We perform checks on the tire pressure and motor oil. We improve the efficiency of the vehicles by removing heavy objects from the vehicles when we don't need them;

- We pay attention to the clutch/throttle coordination when driving, ensure the vehicles are kept at the economic speed, and try to start smoothly. We try to avoid idling the engine when waiting in line, in a traffic jam or waiting for passengers. If the vehicle is to be stopped for over 1 minute, then the engine should be turned off;

- Our production department is equipped with dust removal facilities in the relevant workshops where exhaust and dust are produced, such as installing exhaust fans and ventilations in the operating room to effectively control the steam, fumes, and dust generated in the cooking, baking and dust and other processes; and

- The production department conducts regular inspection and maintenance of equipment, piping and valves to maintain good air tightness of the devices.

During the Reporting Period, the Group sold some vehicles and reduced travels due to the pandemic, so its exhaust gas emissions was lowered than that in 2021. The summary of the Group's exhaust gas emissions performance is set out below:

Types of emissions	**Unit**	**Emissions in 2022**	Emissions in 2021
NO_X	kg	15.26	194.77
SO_X	kg	0.19	0.39
PM	kg	0.79	17.48

*Greenhouse gas ("**GHG**") emissions*

The Group's GHG emissions are mainly from fuel consumed by the Company's vehicles, natural gas consumed by production, boilers and canteens, and liquefied petroleum gas ("**LPG**") consumed by production and purchased electricity. To align with the nation's policy of "achieving peak carbon emissions by 2030 and achieving carbon neutral by 2060", the Group established GHG emissions targets for 2021, and strictly implemented and actively adhered to the carbon reduction plan promulgated by the government of mainland China in order to complete its carbon reduction mission during the target period. The Group actively adopts power saving and energy saving measures to reduce GHG emissions, including strictly controlling the use of air conditioners and production equipment. The specific measures will be explained in the "Energy Efficiency" section. The Group's GHG emissions performance has been disclosed in this Report. The above-mentioned targets are still in progress. The Group will continue to monitor relevant progress and introduce measures to reduce GHG emissions.

During the Reporting Period, the Group's GHG emissions intensity increased, from approximately 8.19 tonnes of carbon dioxide equivalent per million RMB in revenue in 2021 to approximately 10.22 tonnes of carbon dioxide equivalent per million RMB in revenue in 2022. This was mainly due to an increase in the consumption of natural gas, LPG and electricity in the production of the Group's Yaan plant, resulting in an increase in the emissions of GHG from the combustion of natural gas as well as LPG and purchased electricity. The Group will continue to monitor and review its GHG emissions performance and relevant targets and do its best to reduce the emissions.

The summary of the Group's GHG emissions performance for the Reporting Period is set out below:

Types of GHG emissions[1]	Unit	Emissions in 2022	Emissions in 2021
Direct GHG emissions (Scope 1) • Fuel consumed by Company's vehicles • Natural gas consumed in production, boilers and canteens • LPG consumed in production	tonnes of CO_2 equivalent	3,819.44	1,917.10
Energy indirect GHG emissions (Scope 2) • Purchased Electricity	tonnes of CO_2 equivalent	3,922.52	2,539.20
Total (Scope 1&2)	**tonnes of CO_2 equivalent**	**7,741.96**	**4,456.30**
Intensity (Scope 1&2)	tonnes of CO_2 equivalent/ million RMB in revenue[2]	10.22	8.19

Note:

(1) GHG emissions data are presented in terms of carbon dioxide equivalent, with reference to, including but not limited to, the "Greenhouse Gas Inventory Protocol: Corporate Accounting and Reporting Standards" published by the World Resources Institute and the World Business Council for Sustainable Development, "China's Regional Grid Baseline Emissions Factors for Emissions Reduction Projects in 2019" released by the Ministry of Ecology and Environment of China, "Global Warming Potential" in the Fifth Assessment Report issued by the Intergovernmental Panel on Climate Change and "How to Prepare an ESG Report — Appendix II: Environmental Key Performance Indicators Reporting Guidelines" issued by the Stock Exchange.

(2) During the Reporting Period, the Group's total revenue was approximately RMB757.90 million (2021: RMB544.39 million). The data will be used to calculate other intensity data.

Waste management

The Group adheres to the principles of waste management and strives to manage and dispose of waste generated from its business activities in a rational manner to reduce the impact of waste on the environment. The Group strictly complies with the relevant environmental laws and regulations and will maintain high standards in waste reduction and encourage employees to be aware of the importance of sustainable development, raising their awareness of environmental protection thereby achieving the goal of waste reduction at source. The Group set a target in 2021, promising to take waste reduction activities, such as special lectures and exchange of goods, in 2022 to enhance the employees' awareness of waste reduction. To reduce gathering and protect employee health in response to COVID-19, the Group held no activities during the Reporting period. However, the Group will continue to attach great importance to waste reduction, the Group will strive to achieve the goal of holding waste reduction activities at lease once in the year ended December 31, 2023 ("**2023**"). In order to reduce the pollution generated by solid waste to the environment, the Group was adopted other measures, for example, hazardous waste and non-hazardous waste are specified in accordance with the type of storage location and disposal methods.

Hazardous waste

The Group's hazardous waste mainly arises from the manufacturing process of electric wires and cables, and the hazardous waste generated during the production process is mainly waste mineral oil and waste activated carbon. The Group standardizes the management and disposal of hazardous wastes generated by each department and sets up special facilities for separate collection, storage and keeping. All sites where hazardous waste is stored have dedicated staff to enhance management and to register hazardous waste. In order to reduce the pollution caused by hazardous waste to the environment, the Procurement Department will notify the suppliers to collect the waste centrally or hire a qualified hazardous waste collector to handle the waste. The staff will also keep the equipment hygienic at all times, make sure the oil supply system is intact and normal and the amount of oil is reasonably filled to eliminate overflows and drippings.

During the Reporting Period, the Group's hazardous waste intensity decreased from approximately 0.00441 tonnes per million RMB in revenue in 2021 to approximately 0.00166 tonnes in 2022. This was mainly due to the reduction in production at the Group's Guangyuan and Chengdu plants and the commencement of recycling and reuse of mineral oil at the Yaan plant during the Reporting Period resulted in a significant reduction in the amount of hazardous waste generated.

The summary of the Group's hazardous waste disposal performance during the Reporting Period is set out below:

Types of hazardous waste	**Unit**	**Amount disposed of in 2022**	Amount disposed of in 2021
Waste mineral oil	tonne	1.20	2.10
Waste activated carbon	tonne	0.06	0.30
Total	**tonne**	**1.26**	**2.40**
Intensity	tonne/million RMB in revenue	0.00166	0.00441

Non-hazardous waste

As a wire and cable manufacturer, the Group's non-hazardous waste mainly includes obsolete copper, obsolete aluminium, waste plastic pellets, waste wood pallets, domestic waste, food waste and office paper. The Group identifies waste in its daily production and business processes and reduces or eliminates waste by means of project controls to reduce the amount of waste generated, thereby reducing the overall amount of waste generated. At the same time, the Group has adopted environmental measures to reduce paper consumption in its operations. We encourage our employees to use double-sided printing or photocopying whenever possible, and to communicate externally through internal email and electronic format documents to conserve paper.

During the Reporting Period, the Group's non-hazardous waste density decreased from approximately 0.12 tonnes per million RMB in revenue in 2021 to approximately 0.07 tonnes in 2022. This was mainly due to the reduction in production at the Group's Guangyuan and Chengdu plants and the increase in overall production efficiency, as well as the digitalisation of the Group's paperwork during the Reporting Period. As such, there was a significant reduction in paper consumption and non-hazardous waste generated in the production process.

The summary of the Group's non-hazardous waste disposal performance during the Reporting Period is set out below:

Types of non-hazardous waste	**Unit**	**Amount disposed of in 2022**	Amount disposed of in 2021
Obsolete copper (blue, yellow copper), obsolete aluminium	tonne	31.71	39.47
Waste plastic pellets	tonne	7.80	14.55
Domestic waste	tonne	6.70	5.30
Food waste	tonne	4.50	4.30
Paper	tonne	0.62	1.03
Waste wood pellets	tonne	5.00	N/A[3]
Total	**tonne**	**56.33**	**64.65**
Intensity	tonne/million RMB in revenue	0.07	0.12

Notes:

(3) With improvements of its data collection system, the Group began to disclose the quantity of waste wood pellets in tonnes during the Reporting Period (2021: 512 waste wood pellets).

A2. Use of resources

The Group integrates resource conservation and environmental protection concepts into its business operations and is committed to optimising the use of resources in all its business and production operations. The Group focuses on the management of major energy-consuming equipment and standardises the equipment operation process in order to fully and effectively utilise energy.

Energy efficiency

The energy consumed by the Group in the course of its operations includes fuel consumed by the Company's vehicles, natural gas consumed by production, boilers and canteens, LPG consumed in production and purchased electricity. In order to reduce the consumption of energy and other resources and improve the sustainability of production and operation, the Group has prepared the Environmental Management Operation Control Procedures in accordance with the relevant environmental laws and regulations to implement various energy saving and emissions reduction management regulations through controlling and assessing the usage of energy and resources. The Group set a target in 2021 to organise energy saving activities such as training and seminar in 2022 to enhance the employees' awareness of energy conservation. To reduce gathering and protect employees' health in response to COVID-19, the Group held no activities during the Reporting Period. However, the Group will continue to attach great importance to energy conservation. In 2023, the Group will strive to achieve the goal of holding energy conservation related activities at lease once. The Group also adopted measures to reduce electricity consumption.

For the operation of electricity, the Group will consider the performance of production equipment in terms of energy saving when selecting the equipment and prioritize the equipment with mature technology and low energy consumption. At the same time, the Group requested all departments to strengthen their electricity consumption management and establish a sustainable concept of energy conservation among employees. Each production department should also use production equipment with variable frequency control technology as much as possible, and the Facilities Management Department should take good care of the maintenance and repair of electricity equipment to ensure that the equipment can maintain high efficiency in order to achieve electricity saving. Energy-saving lamps should be used at production sites whenever possible. The person in charge of each department should turn off the power of all electronic equipment before the end of each day, and require employees to turn off the lights before leaving to avoid wasting power. The temperature of the air conditioner should not be lower than 26℃ during summer and not higher than 20℃ during winter.

For the natural gas used in the canteen, the Group reasonably distributed the amount of meals to reduce the use of natural gas. As for the fuel consumed by vehicles and mobility machines, in addition to the measures described in the section headed "Emissions Control", the Group will also rationalise the arrangement of travel of its employees, such as using public transportation as much as possible and grouping employees when using the Company's vehicles. Through the implementation of these measures, employees' awareness of energy conservation has been increased.

During the Reporting Period, the energy consumption intensity of the Group increased from approximately 22.66 MWh/million RMB in revenue in 2021 to approximately 30.85 MWh/million RMB in revenue in 2022. This was mainly due to an additional production line was added to the Yaan plant, resulting in an increase in direct energy consumption such as natural gas and LPG used in production and consumption of purchased electricity.

The summary of the Group's energy consumption performance during the Reporting Period is set out below:

Types of energy[4]	Unit	Consumption in 2022	Consumption in 2021
Direct energy consumption	**MWh**	**18,814.86**	**9,377.50**
Diesel	MWh	61.22	169.28
Petrol	MWh	101.36	135.76
Natural gas	MWh	18,259.60	8,867.42
LPG	MWh	392.68	205.04
Indirect energy consumption	**MWh**	**4,567.97**	**2,957.02**
Purchased electricity	MWh	4,567.97	2,957.02
Total	**MWh**	**23,382.83**	**12,334.52**
Intensity	MWh/million RMB in revenue	30.85	22.66

Note:

(4) The unit conversion method for energy consumption data refers to the "Energy Statistics Manual" issued by the International Energy Agency.

Water consumption

In order to conserve water resources, the Group set a goal in 2021 to organise water conservation activities and put up conspicuous materials at eye-catching places in plants and offices in 2022 to enhance the employees' awareness of water conservation. To reduce gathering and protect employees' health in response to COVID-19, the Group held no activities during the Reporting Period. However, the Group has been promoting water conservation to its employees during the Reporting Period, posted water conservation promotional materials in factories and offices and recycling cooling water during operation to enhance employees' awareness of water conservation. In addition, the Group also requires the Facilities Management Department to formulate relevant measures to urge the relevant departments to conduct regular inspections of the drainage pipes and deal with all irregularities in a timely manner to reduce the wasting of water resources. The domestic water is treated in septic tanks and used for agricultural irrigation. The Group will strive to achieve the goal to carry out water conservation activities at least once in 2023, and will continue to review related targets to make more efficient use of water resources.

Due to the geographical location of its operations and the nature of its business, the Group does not have any issues in sourcing water that is fit for purpose. During the Reporting Period, the water consumption per million RMB in revenue of the Group increased from approximately 48.02m^3 in 2021 to approximately 53.22m^3 in 2022. This was mainly due to an additional production line was added to the Yaan plant, and some of the construction work in progress at the plant required water, resulting in a significant increase in water for production and construction.

The summary of the Group's water consumption performance is set out below:

Water consumption	**Unit**	**Consumption in 2022**	Consumption in 2021
Total	**m^3**	**40,338.11**	**26,142.00**
Intensity	m^3/million RMB in revenue	53.22	48.02

Use of packaging materials

The Group produces a wide range of products, and the main packaging materials used include carton, wood, plastic packaging film, packaging steel tape, packaging steel buckle, packaging plastic steel tape and packaging film. During the Reporting Period, the performance of the Group's packaging materials is set out as follows:

Types of packaging materials	**Unit**	**Consumption in 2022**	Consumption in 2021
Carton	tonnes	2.00	5.19
Wood	tonnes	24.00	3.50
Plastic packaging film	tonnes	3.02	2.83
Packaging steel tape	tonnes	9.41	5.57
Packaging steel buckle	tonnes	0.52	0.09
Packaging plastic steel tape	tonnes	0.73	0.21
Packaging film	tonnes	5.41	2.04
Total	**tonnes**	**45.09**	**19.43**

A3. The Environment and Natural Resources

The Group continues to pursue environmental protection and focuses on the impact of its operations on the environment and natural resources. We integrate the concept of environmental protection into our internal management and daily operation activities, and strive to reduce our impact on the environment. Our manufacturing processes generally do not generate large amounts of hazardous waste, wastewater or other industrial waste. As a result, the Group's production processes have a limited negative impact on the environment. However, the Group has taken various measures to ensure its compliance with applicable environmental laws and regulations, including (i) making sure that the wastewater is treated in accordance with national standards before discharge; (ii) managing non-hazardous and hazardous wastes separately; and (iii) implementing noise isolation for major machinery. Sichuan Saftower Industry Company Limited, a subsidiary of the Group, has obtained the ISO 14001:2015 Environmental Management System Certification.

For noise emissions, maintenance of equipment should be enhanced during production to ensure good lubrication and all equipment should work in a noise-free condition. When new equipment is to be added, the noise index should also be evaluated and priority should be given to equipment with low noise levels. We have taken measures to reduce noise emissions from equipment that emits strong noise, and we have enhanced the maintenance of forklifts to reduce transport noise. We also conduct noise monitoring of the plants annually and provide timely advice or measures for improvement if abnormalities are found.

In addition, the Group has an Environmental Factors Identification and Assessment Control Procedure, which identifies environmental factors that can be controlled or affected by the Group's activities, products and services in the past, present and future in eight areas, including "emissions to air", "emissions to water", "emissions to land" and "use of raw materials and natural resources", and controls and updates them in a timely manner to ensure that the environmental impact of the Group's operations is minimised. The Group has also formulated the Air Emissions and Solid Waste Management Policy to regulate the management of air emissions and solid waste pollutants, improve the working environment, reduce the generation of the three wastes and the pollution caused to the environment, and protect the physical and mental health of personnel.

A4. Climate Change

The impact of global climate change on the global ecology and different industries has become increasingly significant. The Group is also deeply aware that climate change will affect its business operations in different ways. Therefore, while practicing green and low-carbon operations, the Group has formulated Climate Change Policies to identify, monitor and manage climate change-related risks, assess related impacts, and formulate response strategies. Based on these policy procedures, the Group has identified the following climate-related risks:

Physical risk

First, climate change has brought about more frequent and more intense extreme weather events, such as typhoons, floods, torrential rains, etc., which may disrupt transportation services and cause delays in the delivery of raw materials and the Group's products. At the same time, rising global temperatures may lead to an increase in electricity consumption in the production process, which in turn drives up the cost of raw materials. The Group's supply chain may be adversely affected in view of the possible increase in raw material costs and transportation disruptions due to climate change. In addition, floods caused by extreme weather will also cause physical damage to the operating sites owned by the Group, increasing the Group's maintenance, disaster response and insurance costs. In severe cases, the normal operations of the Group may be affected, and the personal safety of employees may also be threatened. If the Group does not handle such incidents properly, it will also have a negative impact on the Group's reputation.

In order to deal with these physical risks, the Group has incorporated climate change risks into its risk management process, and will regularly review the risks of business interruption related to extreme weather and, where appropriate, develop countermeasure to mitigate negative compacts, thereby reducing negative impacts. At the same time, the Group has specified special work arrangements under potential environmental disasters, typhoons and rainstorms to avoid any chaotic situations that may lead to safety incidents.

Transition risk

In addition to the above-mentioned physical risks, the Group also faces transition risks arising from the transition to a low-carbon economy. The transition to a low-carbon economy, constrained by constantly updated and stricter environmental regulations, and related innovations in energy-efficient materials, processes, and operations may lead to higher costs for goods and services. The transition risk may increase the cost of raw materials and production used by the Group. In addition, stricter environmental laws and regulations may increase the risk of claims and lawsuits arising from the failure to comply with compliance requirements, thereby affecting the Group's reputation. Affected by these risks, the Group's related capital investment and compliance costs may also increase.

In response to the transition risks mentioned above, the Group regularly monitors existing and emerging climate-related trends, policies and regulations and is prepared to alert senior management if necessary to avoid increased costs, fines for non-compliance or reputational risks due to delayed responses. In addition, the Group maintains a high level of transparency in its ESG risk management activities to build trust and confidence between us and our investors. The Group has also set targets for reducing energy consumption and GHG emissions in 2021 to promote the Group's sustainable development process. At the same time, the Group is also actively exploring low-carbon and energy-saving materials and production methods, in order to seise opportunities in the process of transition to a low-carbon economy and maintain competitiveness in the market.

B. Social

B1. Employment

Human resources are the core of the Group's greatest and most valuable asset and competitive advantage, and the Group's sustainable growth relies on good recruitment and retention practices. The Group adheres to a people-oriented approach, respects and protects the legitimate rights and interests of its employees, actively promotes diversity in the workplace and strives to create a friendly and harmonious working environment.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations related to employment that have a material impact on the Group, including but not limited to the Labour Law of the People's Republic of China and the Labour Contract Law of the People's Republic of China.

As at 31 December 2022, the Group had 183 employees (2021: 221 employees), all of which are full-time employees in mainland China.

The Group's employee composition by the last day of the financial year is set out below:

Categories	**Number of employees in 2022**	**Employee percentage in 2022**	Number of employees in 2021	Employee percentage in 2021
Gender				
Male	136	74%	157	71%
Female	47	26%	64	29%
Age group				
≦30	19	10%	19	8%
31-40	45	25%	57	26%
41-50	73	40%	88	40%
≧51	46	25%	57	26%
Employment type				
Senior management	15	8%	22	10%
Middle management	16	9%	17	8%
General staff	152	83%	182	82%

During the Reporting Period, the Group's overall employee turnover rate[5] was approximately 45% (2021: 26%), with the following breakdown:

Categories	Number of employee turnover in 2022	Turnover rate in 2022	Number of employee turnover in 2021	Turnover rate in 2021
Gender				
Male	62	46%	35	22%
Female	21	45%	23	36%
Age group				
≦30	7	37%	3	16%
31-40	28	62%	7	12%
41-50	20	27%	16	18%
≧51	28	61%	32	56%
Regions				
mainland China	83	45%	58	26%

Note:

(5) The turnover rate for the Group are calculated by dividing the total number of employees in that category who left their jobs during the year by the total number of employees in that category as at the end of the year, multiplied by 100%.

The Group has established relevant personnel management policies, including compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare, to safeguard the welfare of its employees and ensure equal opportunities in all aspects. The Group also encourages and advocates diversity of employees and strives to reduce unfair treatment so that they can actively integrate their personal pursuits into the long-term development of the Group. We have formulated the Labour and Personnel Management Policy in accordance with the Labour Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Basic Internal Control Norms for Enterprises and other relevant laws and regulations to clearly define the recruitment conditions, remuneration, working hours and leaves, other entitlements, benefits and post-employment management, and are committed to providing equal opportunities in the cultivation of talents.

Salary and benefits

The Group has established a fair, just, reasonable and competitive remuneration system and remunerates its staff based on the principles of fairness, competition, motivation, reasonableness and lawfulness. The remuneration package for our employees includes salary, commission, bonus and allowances. In addition, the Group signs and fulfils labour contracts with its employees in accordance with the Labour Contract Law of the People's Republic of China. The Group practically protects the legitimate rights and interests of labourers in accordance with the requirements of the Labour Law of the People's Republic of China and other relevant national and local laws and regulations, respects the rights of employees to rest and leave, and regulates the working hours of employees and their rights to various types of rest periods and holidays.

Recruitment, promotion and dismissal

The Group has been actively implementing the strategy of strengthening the enterprise with talented professionals and has been establishing and improving the talent recruitment and selection system. In accordance with the provisions of the Labour Law of the People's Republic of China and based on the principle of "fairness, impartiality and openness" in the employment environment and recruitment conditions, the Group conducted a comprehensive assessment of those who met the employment requirements for the positions and determined the employment results after a rigorous recruitment process.

The Group has clearly set out the principles of promotion in the Labour and Personnel Management Policy and strives to provide every employee with opportunities for promotion and advancement in accordance with the actual needs of its operation and management. The Group believes that morals and performance are of equal importance. We give promotion and advancement to outstanding staff based on the annual appraisal results, work ability, development potential, moral quality and overall quality. The Group also has clear procedures for the termination, dismissal and retirement of employees. For employees who have reached the retirement age stipulated by the State, their employment contracts with the Company will be terminated and the Human Resources Department will handle the retirement procedures for them in accordance with the law.

Equal opportunity and anti-discrimination

The Group provides equal employment opportunities and fair treatment in employment, does not make discriminatory demands, does not discriminate against any employee at work on the basis of gender, race, marriage, physical condition, family name, geography, religious beliefs, and other aspects and protects the right of workers to equal employment. We endeavour to provide fair treatment to our employees at every stage of recruitment, remuneration, training, promotion, termination of employment contracts and retirement. We also strive to recruit professionals from different backgrounds to join the Group, to eliminate identity discrimination, to make anti-discrimination our social responsibility and to strongly prohibit any unfair treatment.

B2. Health and safety

The Group pays great attention to the health and safety of its employees and is committed to providing them a healthy, safe and comfortable working environment. We aim to protect the safety and health of our employees at work by eliminating all potential health and safety hazards in the workplace and by managing all aspects of safety.

During the Reporting Period, the Group was not aware of any non-compliance with relevant laws and regulations on health and safety that have a significant impact on the Group, including but not limited to the Labour Law of the People's Republic of China, the Work Safety Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases and the Fire Control Law of the People's Republic of China. During the Reporting Period, the Group recorded no lost days due to work injury (2021: Nil). During the Reporting Period, the Group recorded 1 work-related fatality (work-related fatalities in the past three years including the Reporting Period: 1). A security man in Guangyuan plant died of a sudden illness during the night shift. The Group has reported the case to the Social Insurance Fund Administration of mainland China ("**SIA**") and since the Group has already purchased work injury insurance for its employees, the Group settled the insurance compensation from the SIA's work injury insurance fund. The Company will continue to focus on employee health and safety, and work hard to reduce work-related injuries and work-related fatality.

Occupational health and safety

We are committed to providing a healthy and safe working environment for all staff, insisting on the principle of “safety first, prevention is the key”, implementing the responsibility system for safe production, focusing on safety management to ensure personal safety and machine safety, and practically achieving the principles of three no-harms (no harm to others, to yourself, and from others) and three no-give-ups (not giving up until the cause of the accident is clarified, until the person responsible for the accident is educated and those who should be educated are educated, and until the person responsible for the accident is punished). In addition, we strictly prohibit unauthorised operation and instruction, and we always check the safety equipment and protect it in accordance with the regulations. At the same time, all safety precautions are taken as required during the production process. We do not allow the normal operating procedures of the machine to be violated, always remember that personal safety and machine safety are the first priority. We require employees to wear ear plugs and masks in work areas with exhaust gases, dust and high noise levels, and to wear the correct protective items as required.

New employees must undergo safety training and skills training and be assessed by the production authority before they are allowed to start work. All employees on the production site are required to undergo the necessary safety and technical training and be qualified. For staff whose work involves the use of combustible materials (such as acetylene, oil, oxygen and lacquer thinner), we require them to be familiar with the properties of these materials and the rules for fire and explosion protection.

We also encourage our staff to do the "three checks” before they start work, which is to check safety concepts, safety measures and safety equipment, and every staff has the right to refuse to perform work that may cause injury (such as equipment with serious potential hazards that may cause personal injury, dangerous operations with inadequate safety measures). At the same time, we are trying to eliminate and stop habitual violations. We make every employee consciously aware of the importance of safe production. Safety helmets must also be worn by workers during the installation of equipment and lifting of goods or during dangerous operations to avoid injury to personal safety.

The Group strictly complies with the Work Safety Law of the People’s Republic of China and other relevant regulations, and has developed a Production Safety Management Policy to ensure that our operations comply with applicable production safety laws and regulations and prevent production accidents from occurring. Sichuan Saftower Industry Company Limited, a subsidiary of the Group, has also obtained the ISO 45001:2018 Occupational Health and Safety Management System Certification. The Group’s safety management team conducts regular safety inspections of production facilities, and production equipment and machinery are equipped with protective devices and warning labels to ensure compliance with safety regulations and safe operation. Production staff receive regular training on the operation of production equipment and occupational safety equipment. We have complied in all material respects with all applicable occupational health and safety laws and regulations. We will regularly check related measures to ensure effective protection of employee health and safety.

Response to COVID-19

The ongoing global outbreak of the COVID-19 pandemic during the Reporting Period posed a health risk for people. The Group takes the potential health and safety impact of the COVID-19 pandemic on its employees and customers very seriously. In order to ensure the safety and health of all staff, the Group continued to monitor the situation closely and made its best efforts to minimize the risk of cross-infection among staff, and implemented various preventive measures through the pandemic prevention and control working group led by the executive directors, including but not limited to:

- To improve the environmental hygiene of the plants and the office buildings through regular cleaning and disinfection of all areas including offices, production plants, laboratories, canteens and washrooms;

- To require all staff to undergo mandatory temperature checks before and after work every day;

- To minimise face-to-face meetings; and

- To require our staff to wear masks at all times during work and to report to us immediately when they feel unwell. The Group also made detailed deployments and arrangements for the return of staff and post-holiday security and resumption of work after the holiday.

B3. Development and training

The Group focuses on achieving a positive atmosphere for the cultivation, selection and use of talents, and provides each employee with a career path that suits his or her own development and capabilities. We provide on-the-job training and other opportunities to enhance the skills and knowledge of our management and employees. Employees also attend external professional training on a regular basis to meet the different needs of different levels and functions of employees, to enhance their skills and to promote the continuous development of the Group's human resources, as well as to help their individual growth and development.

Career development and training

The Group has established training-related procedures to govern the management of staff training, and specified the responsibilities in training management, the management approach for training demands, and the training methods and contents as the basis of implementing and managing training for employees at all levels. For frontline production staff, in order to ensure that each employee fully understands his or her responsibilities in the production plant, the Group actively arranges for staff to participate in focused training, which includes explaining to staff the main responsibilities and important points to note in each position to enhance their productivity. To ensure that our employees keep up to date, the Group also conducts regular courses for staff on the new version of the wire and cable standards. In addition, the Group also arranges fire drills on a regular basis to test the quick response capability of staff in various positions, enhance their ability to respond quickly to actual fires and strengthen their awareness of fire prevention through on-site fire fighting and self-rescue drills. During the Reporting Period, the Group arranged training on COVID-19 panademic response policies for resident employees to enhance their pandemic response awareness.

During the Reporting Period, the Group had 134 trained employees (2021: 205), representing approximately 73% of the total number of employees (2021: 93%)[6]. The average number of hours of training was 51.78 hours (2021: 24.56 hours). Specific information on staff training percentage (calculated as 100% of the total for the same category) is as follows:

Categories	Percentage of employees trained in 2022	Percentage of employees trained in 2021
Gender		
Male	81%	73%
Female	19%	27%
Employee type		
Senior management	3%	7%
Middle management	7%	7%
General staff	90%	86%

The total hours and average number of hours of training completed by employees, by gender and employment type, are as follows:

Categories	Total training hours in 2022	Average training hours[7] in 2022	Total training hours in 2021	Average training hours[7] in 2021
Gender				
Male	6,988	51.38	4,088	26.04
Female	2,488	52.94	1,339	20.92
Employee type				
Senior management	558	37.20	1,020	46.36
Middle management	1,310	81.88	1,382	81.29
General staff	7,608	50.05	3,025	16.62

Note:

(6) The percentage of employees trained is calculated by dividing the number of employees trained during the year by the total number of employees as at the end of the year, multiplied by 100%.

(7) The average number of hours of training for employees of the Group is the total number of hours of training for that category of employees during the year divided by the number of training hours for that category of employees as at the end of the year.

B4. Labour standards

During the Reporting Period, the Group was not aware of any material non-compliance with relevant laws and regulations on the prevention of child labour or forced labour that have a significant impact on the Group, including but not limited to the Labour Law of the People's Republic of China, the Provisions on the Special Protection on Juvenile Workers and the Provisions on the Prohibition of Using Child Labour of the People's Republic of China.

Prevention of child labour and forced labour

The Group strictly prohibits the employment of any child labour and requires new employees to provide true and accurate personal information when they join the Group. Recruiters strictly check entry data, including academic proof, identity card, household registration details, etc. The Group has well-established recruitment system and processes that require checking of candidates' backgrounds to prevent any child labour or forced labour in its operations. The Human Resources Department will ensure that identity documents are carefully checked. If any violations are discovered, they will be dealt with as appropriate, including to terminate the labor contract with the employee concerned.

In addition, employees work overtime on a voluntary basis to avoid violating labour standards and to protect their rights and interests, and we are required to provide overtime pay or paid leave. The Human Resources Department will also regularly check records of working hours and if overwork is found, it will initiate immediate investigation and take corresponding action, including to punish the employee involved according to the Employee Reward and Punishment Management System. The Group will also review relevant measures regularly, and further improve the labour mechanism for violations if necessary.

B5. Supply chain management

The Group highly values the management of potential environmental and social risks in the supply chain. As such, the Group has established a stringent procurement policy system and supplier selection process to more effectively regulate and monitor the supply chain and procurement process.

Supplier management

We identify suitable suppliers based on actual requirements, and collect information on quality, material selection and price as a basis for selection. Interested suppliers are required to complete the "Basic Supplier Information Form". The procurement officer will conduct preliminary evaluation of the "Basic Supplier Information Form" and draw up a shortlist of suppliers based on the evaluation, which will be submitted to the person in charge of the Supplies Department for review and approval, and provide relevant supporting documents for toxic and dangerous goods to ensure that the suppliers comply with government laws and regulations and safety requirements.

In addition, in conjunction with other relevant departments, the Supplies Department will conduct on-site supplier evaluations and make corresponding suggestions and recommendations to ensure that the quality of the supplier is up to standard. The supplier evaluation criteria include the following four main aspects

I. Qualifications, operating conditions, credit rating and service of the supplier;

II. Payment terms requested by the supplier;

III. Quality of the goods; and

IV. Prices and delivery times for procurement.

At the same time, the Group also fully considers the social, ethical and environmental performance of its suppliers in the procurement process. The Group has established the policy Consideration of Environmental and Social Factors on the Supply Chain, which requires the following contents in the periodic audit of suppliers:

- The supplier understands the social, ethical and environmental issues related to its business and has established minimum standards for these issues;
- Main suppliers and suppliers with higher risks have management systems in place to deal with environmental and social issues and risks;
- Ensure the accuracy of the information provided by suppliers through audits, third-party verification or similar procedures; and
- Under other conditions being the same, the Group will give priority to suppliers who are responsible for the environment and society, or those who promote products and services that are beneficial to the environment.

The Group maintains stable relationships with its various suppliers and has never encountered any significant problems in obtaining sufficient raw materials to meet its production needs. The Group also does not rely on specific suppliers to supply its raw materials as there are other suppliers readily available to supply such raw materials. The Group also reviews the performance of suppliers on an annual basis, including but not limited to track record, pricing, timely delivery, financial condition and environmental and social performance, to ensure that they maintain a high level. In additions, in its Environmental Protection Policy, the Group encourages all departments to purchase environmentally friendly products and services, and will punish anyone that has purchased technologies or equipment inconsistent with environmental regulations.

We regularly review our supply chain-related policies and practices to ensure their effectiveness.

During the Reporting Period, the Group had a total of 189 major suppliers (2021: 70), all located in mainland China and passed the above-mentioned practice of reviewing suppliers. During the Reporting Period, the Group did not find any major suppliers to have any significant negative impact on business ethics, environmental protection, human rights and labour practices.

B6. Product responsibility

Sichuan Saftower Industry Company Limited, a subsidiary of the Group, has obtained the ISO 9001:2015 Quality Management System Certification. The Group has also passed the China Compulsory Certification (CCC) and China Quality Certification (CQC) certifications, and has been awarded honorary titles as National Production License for Industrial Products, High-tech Enterprise, Chengdu Famous Trademark and Sichuan Famous Brand Product

During the Reporting Period, the Group was not aware of any non-compliance with relevant laws and regulations on health and safety, advertising, labelling and privacy matters in relation to products and services that had a significant impact on the Group, including but not limited to the Product Quality Law of the People's Republic of China, the Advertising Law of the People's Republic of China, the Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Consumer Rights and Interests and the Law of the People's Republic of China on Technology Contracts.

Product quality management

The Group has developed effective quality control systems designed to demonstrate its ability to provide products that meet customer, regulatory and legal requirements. In addition, some of the wires and cables we supply are used in public sector projects that have strict quality assurance of the power supply and distribution system, therefore we place great emphasis on the quality of our products. The Group also regularly reviews and upgrades its quality control systems from time to time to meet industry standards and to meet or exceed customer expectations.

The insulation layer of the Group's eco-friendly wires and cables is made of unique materials that prevent the emissions of harmful pollutants into the atmosphere under high temperature conditions. Eco-friendly wires and cables are not only better for the environment, they are also a safer choice. The use of fire-resistant materials also enhances the safety of eco-friendly wires and cables. The Group has obtained two patents in the development of unique wires and cables, which were the "Aluminium Alloy Eco-friendly Fire-resistant Electronic Cable" and the "Aluminium Alloy Eco-friendly Fire-resistant Cables".

As at 31 December 2022, the Group's quality management team has 7 members, some of whom have over 10 years of experience in the wire and cable industry. The Group conducts quality tests and checks at each major stage of the production process. During the Reporting Period, the Group did not receive any cases of recall of sold or delivered products for safety and health reasons, nor did it receive any material complaints about products and services.

We have adopted the following quality control measures to ensure the production of high quality and safe products:

- *Raw material inspection and test*
  We inspect and test raw materials from our suppliers in accordance with our "Inspection and Test" quality procedures prepared in accordance with ISO 9001. The purpose of these inspections and tests is to verify that the raw materials purchased, technical requirements, external conditions and other requirements are suitable for use in production. The inspections and tests are carried out by the Group's quality control staff by sampling

- *Production quality control*
  We carry out quality control tests at all stages of the production process, known as "in-process testing". The objective is to ensure that the product meets quality requirements (including cable diameter, thickness, voltage testing and insulation) and that quality problems are identified and resolved in a timely manner. The unfinished products will be moved to the next production process after passing the inspection.

- *Final inspection and testing*
  We carry out quality checks on all finished products to ensure that they meet the specifications of our customers and national industry standards. Based on the specifications of the finished products, the Group conducts tests on samples from the finished products.

Customer service
We always "focus on the customer" in all our work processes, fully communicate and understand customer requirements to ensure that they are identified and met. The Group's standardised service quality, humanised service process and regulated service management provide customers with a quality and warm service experience.

We collect customer satisfaction information in the following ways:

- We regularly collect written information by having the Marketing Department organising customer satisfaction surveys and collecting information by sending Customer Satisfaction Survey Forms to customers;

- Our Marketing Department directly communicates with customers, such as holding seminars with customer representatives, making return visits to customers, and sending representatives to customers to listen to their opinions;

- We collect customer satisfaction information through customer complaints and after-sales service information; and

- We collect evaluations through higher authorities, consumers associations or the media.

The information we collect is analysed statistically to identify patterns in customer satisfaction, identify gaps between competitors, set targets, and summarise the main current issues. For customer complaints, the Group has established a complaint handling procedure, enabling relevant departments to conduct investigations, actively monitoring the handling process, coordinating and communicating with all relevant parties, and properly responding to complaints. The Group is committed to understanding the reason of customer complaints, identifying responsible parties and areas for improvement, so as to improve the quality of the Group's services. We have also established the Non-conforming Product Control Procedures to identify and control non-conforming products, prevent unintended use and delivery of non-conforming products and take appropriate action against non-conforming products. If customers find out that the product is unqualified after delivery and after the start of use, the Group will immediately recall such product. After it is confirmed as an unqualified product, it will be scrapped. Meanwhile, similar products will be inspected to ensure that the products are qualified. Once unqualified products are discovered, they will also be recalled and scrapped.

Intellectual property

We continue to focus on product development and product quality improvement, and intellectual property rights play an important part in our business. In order to safeguard the efforts of the Group's development team, the Group actively applies for patents for its products and technologies in order to protect its intellectual property rights. Meanwhile, when dealing with its customers or suppliers, the Group will also include relevant content of intellectual property protection in the contract terms with original equipment manufacturer. The Group's legal department also reviews the contracts in operation to ensure that the terms of the contracts protect the intellectual property rights of both parties. As at 31 December 2022, we have obtained 29 registered trademarks in mainland China and Hong Kong, and 61 registered patents in China for the development and technology of wire and cable products that are significant to our business. We are committed to being a leader in our industry through continuous innovation.

During the Reporting Period, we are not aware of any material infringement of any of the Group's intellectual property rights that has adversely affected our business, nor are we aware of any pending or potential litigation or legal proceedings against us for infringement of any intellectual property rights owned by a third-party.

Privacy protection

The Group endeavours to protect the legitimate interests of its customers, respects the rights of its customers' information assets and strictly adheres to its customers' information security management systems and standards. The sensitive information of the Group's customers is used only for its intended purpose to avoid disclosure of customers' privacy. The relevant business personnel are trained to respect the confidentiality of customers' information and only authorised personnel have access to customers' sensitive information. The Group will not use personal data for marketing purposes or provide personal data to any person for such purposes unless with the written consent of the customer. Access to employee information systems is also restricted to authorised personnel with respect to employees' privacy. In addition, employees are required to sign a confidentiality agreement and will be held liable for any unlawful disclosure of information. We regularly review our privacy-related practices to ensure their effectiveness.

Advertising and labelling

The Group conducts limited advertising activities and therefore does not involve significant advertising-related risks. We strictly abide by the Advertising Law of the People's Republic of China, the Trademark Law of the People's Republic of China and other relevant laws and regulations. All information about the Group's products and businesses is subject to strict review before it is made public to eliminate any use of false information in advertising, promotion and exhibitions to mislead customers.

B7. Anti-corruption

As a corruption-free corporate culture is vital to the Group's sustainable development, we value the anti-corruption efforts and institutional development. The Group has anti-corruption policies, including prevention of bribery, extortion, fraud and money laundering, in place and clearly stipulates the expectations of the Group for employees in relation to anti-corruption matter to ensure that the Group operates in compliance with national and industry regulations. At the same time, the Group strives to create a fair, open, impartial, standardised and efficient internal management environment and requires its employees, especially the management, to adopt honesty, trustworthiness and integrity as the most basic standards of conduct. The Group will investigate suspicious cases and will take the necessary disciplinary and legal action once identified. The Group has always attached great importance to its corporate culture of integrity. The Group undertakes to provide anti-corruption training or relevant reading materials to the directors and employees at least once a year to enhance their awareness of integrity and business ethnics. During the Reporting Period, the Group has provided anti-corruption training materials for directors and employees to let them study anti-corruption training materials on their own, which covered anti-corruption laws and news.

We have formulated the Whistleblowing Policy, which is an internal regulation that sets out relevant anti-corruption and anti-fraud behaviours, enhance employees' knowledge and understanding of the Group's whistle-blowing workflow and related precautions. According to this policy, employees can report any fraudulent behaviour for undue gain by emails and letters, etc. The Group is responsible for managing relevant reports, conducting internal assessments, conducting investigations and forming written records and, where appropriate, reporting investigation results to the Board for appropriate handling. The Whistleblowing Policy also ensures the protection of whistleblowers (including the confidentiality of identity and personal information) against retaliation for reporting incidents in good faith. The Group will regularly review relevant systems to ensure the effectiveness.

During the Reporting Period, there were no corruption proceedings brought or concluded against the Group or its employees. Furthermore, the Group is not aware of any non-compliance with relevant laws and regulations on bribery, extortion, fraud and money laundering that have a significant impact on the Group, including but not limited to the Criminal Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China, the Company Law of the People's Republic of China and the Anti-Unfair Competition Law of the People's Republic of China.

B8. Community investment

The Group believes that giving back to the community by participating in social activities and contributing to society is a form of corporate citizenship. As a member of the community, the Group has always been committed to the concept of public welfare, taking public welfare as its corporate responsibility and mission, focusing on the difficulties and needs of the disadvantaged groups, and taking the initiative to give back to the society, contribute to the society and promote social harmony. In this regard, the Group has developed relevant guidelines to understand the needs of the communities where we operate proactively. We encourage staff to participate in social welfare activities to enhance their civic awareness, help them establish proper values, and foster a good corporate culture of contributing to society.

During the Reporting Period, the Group donated RMB10,000 to Baoxing County Charity Federation to support the earthquake relief work in Baoxing County, Yaan, Sichuan Province. We will continue to realise our social value by all means, thereby promoting social well-being and sustainability.

Index Table of the Environmental, Social and Governance Reporting Guide of The Stock Exchange of Hong Kong Limited

Mandatory Disclosure Requirements	Section/Statement
Governance framework	ESG Governance Structure
Reporting principles	Reporting Framework and Principles
Reporting scope	Reporting Scope

"Comply or explain" provisions	Description	Section/Statement
Aspect A1: Emissions		
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Emissions-Emissions control
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions-Emissions control
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions-Waste management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emissions-Waste management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Emissions-Emissions control, Waste management
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	Emissions-Waste management

"Comply or explain" provisions	Description	Section/Statement
Level A2: Use of Resources		
General Disclosures	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Use of Resources-Energy efficiency
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Use of Resources-Water consumption
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources-Energy efficiency
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Use of Resources-Water consumption
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Resources-Use of packaging materials
Level A3: The Environment and Natural Resources		
General Disclosures	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change

"Comply or explain" provisions	Description	Section/Statement
Aspect B1: Employment		
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type (for example, full-or part-time), age group and geographical region.	Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment
Aspect B2: Health and Safety		
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and Safety
Aspect B3: Development and Training		
General Disclosures	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training

"Comply or explain" provisions	Description	Section/Statement
Aspect B4: Labor Standards		
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosures	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management

"Comply or explain" provisions	Description	Section/Statement
Aspect B6: Product Responsibility		
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosures	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption

"Comply or explain" provisions	Description	Section/Statement
Aspect B8: Community Investment		
General Disclosures	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2022.

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 the 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 2022 are set out in the consolidated financial statements on pages 79 to 155 of this report. The Directors resolved not to recommend the payment of any final dividend for the year ended 31 December 2022 (2021: nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022, the five largest customers in aggregate and the largest customer of the Group accounted for approximately 67.2% and 25.0% respectively of the Group's sales.

For the year ended 31 December 2022, the five largest suppliers in aggregate and the largest supplier of the Group accounted for approximately 58.5% and 26.9% 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 2022.

DIRECTORS

The directors of the Company during the year ended 31 December 2022 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 68 to 73 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 2022, 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 Ordinary Shares of the Company interested	Approximate percentage of interest
Mr. Dang Fei	Interest in controlled corporation *(Note 1)* Interest held jointly with another person *(Note 2)*	351,280,000	38.18%
Mr. Wang Xiaozhong	Interest in controlled corporation *(Note 3)*	99,760,000	10.84%
Ms. Luo Xi	Interest in controlled corporation *(Note 4)*	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 and Mr. Dang Jun are 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 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 wholly owned 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 2022, 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 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 wholly owned 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

The Remuneration Policy of Directors

Quality and committed staff are valuable assets contributing to the Group's success. To ensure the ability to attract and retain talents, the Group's remuneration policy of Directors is built upon the principles of providing equitable and market-competitive remuneration package that support the performance culture and enable the achievement of strategic business goals. The Group's remuneration policy of Directors is, therefore, aiming at providing competitive but not excessive remuneration package to the Directors.

The Directors' remuneration comprises fixed salary or service fee and variable components (such as bonus and share options), which is benchmarked against companies of comparable business or scale with reference to a mix of factors such as the prevailing market condition, the Company's performance and the qualifications, skills, experience and educational background of the Directors.

The Directors' remuneration is reviewed annually and are subject to shareholders' approval.

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 that 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 2022.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "**Share Option Scheme**") on 10 June 2020 (the "**Effective Date**"), which is valid for 10 years from the Effective Date and will continue to be valid for around 8 years as at the end of 2022. 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 beginning and the end of the financial year ended 2022, 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 be 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 non-compliance with 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 which occurred subsequent to 31 December 2022 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 2022 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 and the Company has complied with the disclosure requirements in 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association 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 2022.

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 2022 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 2022.

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

During the year ended 31 December 2022, 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 2022 are set out in the consolidated statement of changes in equity on page 137 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 2022 amounted to approximately RMB33.6 million.

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 2022 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 30 May 2023 ("**2023 AGM**"). For determining the entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from 27 May 2022 to 30 May 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2023 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 17/F Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on 26 May 2023.

CHANGE OF AUDITOR

Reference is made to the announcement of the Company dated 15 February 2023, BDO Limited (the "**BDO**") resigned as the auditor of the Company with effect from 15 February 2023. CL Partners CPA Limited as the new auditor of the Company with effect from 15 February 2023 would fill the casual vacancy following the resignation of BDO and to hold office until the conclusion of the next annual general meeting of the Company.

For details, please refer to the announcement of the Company dated 15 February 2023. A resolution to appoint the auditors of the Company and authorise the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting. Save as disclosed above, there was no change in auditors of the Company in the past three years.

On behalf of the Board
China Saftower International Holding Group Limited

Dang Fei
Chairman
Hong Kong, 31 March 2023

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Dang Fei (黨飛先生), aged 45

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 45

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 36

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 36

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.

Non-executive Director

Mr. Wang Haichen (王海臣先生), aged 44

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 40

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* (西安鑫垚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 44

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. Since January 2021, Mr. Chan has been the company secretary of Raily Aesthetic Medicine International Holdings Limited, a company listed on the Stock Exchange (Stock Code: 2135), which is a company principally engaged in providing esthetic medical service in Zhejiang Province, the PRC.

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, from June 2014 to January 2021.

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.

Ms. Hu Xiaomin (胡曉敏女士), aged 41

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 47

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 45

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 38

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 51

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

CL Partners

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 (collectively referred to as the "**Group**") set out on pages 79 to 155, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022 , 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 3 to the consolidated financial statements which indicates that the Group incurred a net loss of approximately RMB25,628,000 for the year ended 31 December 2022 and as at 31 December 2022, the Group's net current liabilities amounted to approximately RMB22,610,000. The Group's total borrowings and loans amounted to approximately RMB116,477,000, out of which borrowings and loans of approximately RMB113,702,000, are due for repayment in the next twelve months from the date of approval of these consolidated financial statements, while its cash and cash equivalents amounted to RMB703,000 at 31 December 2022. In addition, as at 31 December 2022, the Group was in default in respect of principal amount of borrowings totaling approximately RMB18,100,000 due to the events of default of late or overdue payment of loan principal and interest during the year ended or as at 31 December 2022. These conditions, together with other matters described in note 3 to the consolidated financial statements, indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from 31 December 2022. They are of the opinion that, taking into account the plans and measures described in note 3 which improve the liquidity and financial position of the Group, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2022. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis. However, the ultimate success of the renewal of the existing loans or the likelihood of raising any new funds could not be determined as of the date of approval of these consolidated financial statements. Should the above financing be unavailable, the Group may be unable to operate as a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to state them at their recoverable amounts, to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively. These conditions, along with other matters as set forth in note 3 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 2022, the Group's gross trade receivables amounted to RMB127,598,000, against which a loss allowance of RMB8,245,000 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.

How our audit addressed the key audit matter:

Our audit procedures in relation to the 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, customer-specific conditions and forward-looking information.

OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by another auditor who expressed an unqualified opinion on those consolidated financial statements on 31 March 2022.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CL Partners CPA Limited
Certified Public Accountants

Anna Hong
Practising Certificate no. P07069

Hong Kong, 31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	*7*	**757,901**	544,389
Cost of sales		**(773,478)**	(538,333)
Gross (loss) profit		**(15,577)**	6,056
Other income and gains	*8*	**24,819**	15,033
Selling and distribution expenses		**(5,617)**	(4,498)
Administrative and other expenses		**(21,996)**	(29,749)
Impairment losses on trade and other receivables, net		**(2,934)**	(3,123)
Impairment losses on property, plant and equipment		**–**	(2,637)
Finance costs	*9*	**(10,695)**	(11,729)
Loss before income tax credit	*10*	**(32,000)**	(30,647)
Income tax credit	*12*	**6,372**	4,124
Loss for the year		**(25,628)**	(26,523)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**46**	61
Total comprehensive expense for the year		**(25,582)**	(26,462)
Loss for the year attributable to:			
Owners of the Company		**(21,527)**	(25,224)
Non-controlling interests		**(4,101)**	(1,299)
		(25,628)	(26,523)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(21,481)**	(25,163)
Non-controlling interests	*36*	**(4,101)**	(1,299)
		(25,582)	(26,462)
Loss per share attributable to owners of the Company	*14*		
Basic and diluted *(RMB cents)*		**(2.34)**	(2.92)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**137,587**	137,017
Right-of-use assets	*19*	**6,882**	8,991
Goodwill	*17*	**597**	597
Intangible assets	*16*	**443**	284
Deferred tax assets	*18*	**10,707**	4,442
Deposits and prepayments	*22*	**7,163**	7,720
Total non-current assets		**163,379**	159,051
Current assets			
Inventories	*20*	**18,219**	20,409
Trade and bills receivables	*21*	**119,353**	214,597
Prepayments, deposits and other receivables	*22*	**90,602**	67,717
Tax recoverables		**66**	—
Amounts due from shareholders	*24*	**150**	169
Financial assets at fair value through profit and loss	*23*	**—**	1,200
Bank balances and cash	*25*	**703**	6,668
Total current assets		**229,093**	310,760
Total assets		**392,472**	469,811
Current liabilities			
Contract liabilities	*26*	**17,583**	23,064
Trade payables	*27*	**53,900**	65,545
Accruals and other payables	*28*	**51,207**	36,383
Amount due to a shareholder	*24*	**12,643**	7,865
Amount due to non-controlling interest	*24*	**1,713**	1,800
Borrowings	*29*	**113,702**	166,658
Lease liabilities	*31*	**587**	1,626
Tax payables		**—**	36
Deferred income	*30*	**368**	368
Total current liabilities		**251,703**	303,345
Net current (liabilities) assets		**(22,610)**	7,415
Total assets less current liabilities		**140,769**	166,466

As at 31 December 2022

	Notes	**2022 RMB'000**	2021 RMB'000
Non-current liabilities			
Borrowings	*29*	**2,775**	1,459
Lease liabilities	*31*	**16**	972
Deferred tax liabilities	*18*	**1,120**	1,227
Deferred income	*30*	**1,349**	1,717
Total non-current liabilities		**5,260**	5,375
Total liabilities		**256,963**	308,720
Net assets		**135,509**	161,091
EQUITY			
Share capital	*32*	**8,222**	8,222
Reserves	*33*	**103,584**	125,065
Equity attributable to owners of the Company		**111,806**	133,287
Non-controlling interests	*36*	**23,703**	27,804
Total equity		**135,509**	161,091

On behalf of the directors

Dang Fei	**Wang Xiaozhong**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Equity attributable to owners of the Company								
	Share capital RMB'000 *(Note 32)*	Share premium RMB'000 *(Note 33)*	Capital reserves RMB'000 *(Note 33)*	Statutory reserves RMB'000 *(Note 33)*	Foreign exchange reserves RMB'000 *(Note 33)*	Retained earnings (accumulated loss) RMB'000 *(Note 33)*	Sub-total RMB'000	Non-controlling interests RMB'000 *(Note 36)*	Total RMB'000
At 1 January 2021	7,226	30,642	69,696	7,724	(535)	36,232	150,985	25,159	176,144
Loss for the year	–	–	–	–	–	(25,224)	(25,224)	(1,299)	(26,523)
Other comprehensive income	–	–	–	–	61	–	61	–	61
Total comprehensive income (expense) for the year	–	–	–	–	61	(25,224)	(25,163)	(1,299)	(26,462)
Issue of shares under subscription *(Note 32 & 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)	–	–	–
At 31 December 2021 and 1 January 2022	8,222	37,111	69,696	7,730	(474)	11,002	133,287	27,804	161,091
Loss for the year	–	–	–	–	–	(21,527)	(21,527)	(4,101)	(25,628)
Other comprehensive income	–	–	–	–	46	–	46	–	46
Total comprehensive income (expense) for the year	–	–	–	–	46	(21,527)	(21,481)	(4,101)	(25,582)
At 31 December 2022	8,222	37,111	69,696	7,730	(428)	(10,525)	111,806	23,703	135,509

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Loss before income tax credit		**(32,000)**	(30,647)
Adjustments for:			
Depreciation of property, plant and equipment	*10*	**10,092**	8,327
Depreciation of right-of-use assets	*10*	**1,638**	1,328
(Gain) loss on disposal of property, plant and equipment, net	*10*	**(36)**	240
Gain on early termination of lease	*8*	**(136)**	(315)
Gain on derecognition of trade payable	*8*	**(4,013)**	(130)
Loss on disposal of intangible assets		**189**	—
Written-off of property, plant and equipment	*15*	**412**	1
Amortisation of intangible assets	*10*	**42**	36
Allowance for expected credit losses on trade receivables, net	*10*	**2,699**	3,083
Allowance for expected credit losses on other receivables, net	*10*	**235**	40
Impairment on property, plant and equipment	*10*	**—**	2,637
Release of deferred income	*10*	**(368)**	(368)
Net realised and unrealised gain on financial assets at fair value through profit or loss	*8*	**(1,520)**	(303)
Finance costs	*9*	**10,295**	11,729
Interest income	*8*	**(2,473)**	(1,512)
Operating loss before working capital changes		**(14,944)**	(5,854)
Decrease (increase) in inventories		**2,190**	(3,106)
Decrease (increase) in trade and other receivables		**92,545**	(56,197)
Increase in prepayments, deposits and other receivables		**(23,120)**	(5,261)
(Decrease) increase in contract liabilities		**(5,481)**	20,043
(Decrease) increase in trade payables		**(11,645)**	7,259
Increase in accruals and other payables		**16,494**	15,308
Cash from (used in) operations		**56,039**	(27,808)
Income tax paid		**(102)**	(415)
Net cash from (used in) operating activities		**55,937**	(28,223)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from investing activities			
Purchases of intangible assets		**(390)**	(110)
Purchases of property, plant and equipment		**(10,691)**	(11,402)
Net cash outflow from acquisition of a subsidiary	37	**–**	(8,980)
Advance to a shareholder		**19**	(164)
Loan advanced to third party		**–**	(500)
Interest received		**2,473**	1,512
Proceeds from disposal of property, plant and equipment		**159**	1,638
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		**2,720**	4,722
Net cash used in investing activities		**(5,710)**	(18,903)
Cash flows from financing activities			
Proceeds from borrowings	39	**87,922**	153,573
Repayments of borrowings	39	**(139,562)**	(119,835)
Interest paid on borrowings	39	**(7,918)**	(6,915)
Repayments of lease liabilities	39	**(1,465)**	(1,114)
Increase in amount due to a shareholder	39	**4,778**	7,705
(Decrease) increase in amount due to non-controlling interest	39	**(87)**	1,000
Proceeds from issue of ordinary shares		**–**	7,474
Share issue expenses		**–**	(186)
Net cash (used in) generated from financing activities		**(56,332)**	41,702
Net decrease in cash and cash equivalents		**(6,105)**	(5,424)
Cash and cash equivalents at beginning of year		**6,668**	12,073
Effect of exchange rate changes on cash and cash equivalents		**140**	19
Cash and cash equivalents at end of year		**703**	6,668

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 2022 were approved and authorised for issue by the board of directors of the Company on 31 March 2023.

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

2.1 Adoption to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

For the year ended 31 December 2022

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

2.1 Adoption to HKFRSs that are mandatorily effective for the current year (Continued)

Impacts on application of Amendments to HKFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January, 2022. The amendments update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "**Conceptual Framework**") instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010), add a requirement that, for transactions and events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

2.2 New or amended HKFRSs in issue but are not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after a date to be determined.
[3] Effective for annual periods beginning on or after 1 January 2024.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

2.2 New or amended HKFRSs in issue but are not yet effective (Continued)

Amendments to HKAS 1 "Classification of Liabilities as Current or Non-current" and related amendments to Hong Kong interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 "Financial Instruments: Presentation".

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

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

2.2 New or amended HKFRSs in issue but are not yet effective (Continued)

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated 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 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.

(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 2022, the Group incurred a net loss of approximately RMB25,628,000 and as at 31 December 2022, the Group had net current liabilities of approximately RMB22,610,000. The Group's total borrowings and loans amounted to approximately RMB116,477,000, out of which borrowings and loans of approximately RMB113,702,000, are due for repayment in the next twelve months from the date of approval of these consolidated financial statements, while its cash and cash equivalents amounted to RMB703,000 at 31 December 2022. In addition, as at 31 December 2022, the Group was in default in respect of principal amount of borrowings totaling approximately RMB18,100,000 due to the events of default of late or overdue payment of loan principal and interest during the year ended or as at 31 December 2022. 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 2023 to 30 June 2024 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;

3. BASIS OF PREPARATION (CONTINUED)

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

(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 RMB113,702,000 out of the current borrowings amounting to approximately RMB113,072,000 as at 31 December 2022. 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.

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.

(c) Functional and presentation currencies

The Company's functional currency is Hong Kong dollar ("**HK$**"). 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Business combination and basis of consolidation (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Goodwill (Continued)

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.

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.

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 a 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.

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 it 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.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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.

When a lease contract contains a specific clause that provides for rent reduction or suspension of rent in the event that the underlying assets (or any part thereof) are affected by adverse events beyond the control of the Group and the lessor so as to render the underlying assets unfit or not available for use, the relevant rent reduction or suspension of rent resulting from the specific clause is accounted for as part of the original lease and not as a lease modification. Such rent reduction or suspension of rent is recognised in profit or loss in the period in which the event or condition that triggers those payments to occur.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Leases (Continued)

Lease liability (Continued)

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

For the year ended 31 December 2022

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.

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.

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 entirely 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.

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.

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 non-compliance with 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 non-compliance with 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.

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, amount due to non-controlling interest 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 contact 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.

For the year ended 31 December 2022

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.

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.

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.

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 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.

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.

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.

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.

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.

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 income, 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.

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 directors 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.

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:

	2022 **RMB'000**	2021 RMB'000
Customer A	**120,030**	N/A[1]
Customer B	**81,415**	N/A[1]
Customer C	**N/A[1]**	55,028

[1] 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:

	2022 **RMB'000**	2021 RMB'000
Revenue from contracts with customers		
Type of goods		
Manufacturing and sales of wires and cables, recognised at a point in time	**366,834**	385,209
Manufacturing and sales of aluminium products, recognised at a point in time	**391,067**	159,180
	757,901	544,389

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.

8. OTHER INCOME AND GAINS

	Notes	2022 RMB'000	2021 RMB'000
Other income			
Interest income		**2,473**	1,512
Government grants and subsidies	*(i)*	**15,809**	12,026
Scrap sales		**63**	101
Rental income	*(ii)*	**346**	249
Others		**257**	—
		18,948	13,888
Gains			
Gain on early termination of lease		**136**	315
Gain on derecognition of trade payables		**4,013**	130
Gain on disposal of property, plant and equipment		**36**	—
Net realised and unrealised gain on financial assets at FVTPL		**1,520**	303
Others		**166**	397
		5,871	1,145
		24,819	15,033

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 both years, the Group leased its machine to an independent third party with the lease period within one year.

9. FINANCE COSTS

	2022 **RMB'000**	2021 RMB'000
Interest expenses on bank and other borrowings	**10,219**	11,012
Interest expenses on lease liabilities	**76**	118
Others	**400**	1,178
Finance expenses	**10,695**	12,308
Finance cost capitalised in construction-in-progress	**—**	(579)
Finance costs recognised in profit or loss	**10,695**	11,729

10. LOSS BEFORE INCOME TAX CREDIT

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

	2022 **RMB'000**	2021 RMB'000
Cost of inventories recognised as expense	**773,478**	538,333
Auditor's remuneration		
— Audit services	**776**	783
— Non-audit services	**—**	—
Research costs (other than amortisation costs)	**809**	1,075
Depreciation of property, plant and equipment	**10,092**	8,327
Depreciation of right-of-use assets	**1,638**	1,328
(Gain) loss on disposal of property, plant and equipment, net	**(36)**	240
Loss on disposal of intangible assets	**189**	—
Amortisation of intangible assets	**42**	36
Impairment on property, plant and equipment	**—**	2,637
Release of deferred income	**(368)**	(368)
Allowance for ECLs on trade receivables, net	**2,699**	3,083
Allowance for ECLs on other receivables, net	**235**	40
Gain on derecognition of trade payables	**(4,013)**	(130)
Written-off of property, plant and equipment	**412**	1
Gain on early termination of lease	**(136)**	(315)
Employee costs (including directors' remuneration *(Note 11)*		
— Wages, salaries and other benefits	**12,139**	12,221
— Contributions to defined contribution retirement plans	**2,611**	2,606
	14,750	14,827

For the year ended 31 December 2022

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	Discretionary bonuses RMB'000	Contributions to defined contribution retirement plans RMB'000	Total RMB'000
For the year ended 31 December 2022					
Executive directors:					
Mr. Dang Fei	**–**	**108**	**–**	**19**	**127**
Mr. Wang Xiaozhong	**–**	**127**	**–**	**17**	**144**
Ms. Luo Xi	**–**	**191**	**–**	**17**	**208**
Mr. Luo Qiang	**–**	**235**	**–**	**17**	**252**
Non-executive director:					
Mr. Wang Haichen	**200**	**–**	**–**	**–**	**200**
Independent non-executive directors:					
Mr. Zuo Xinzhang	**60**	**–**	**–**	**–**	**60**
Mr. Chan Oi Fat	**159**	**–**	**–**	**–**	**159**
Mrs. Hu Xiaomin	**90**	**–**	**–**	**–**	**90**
	509	**661**	**–**	**70**	**1,240**
For the year ended 31 December 2021					
Executive directors:					
Mr. Dang Fei	–	106	–	11	117
Mr. Wang Xiaozhong	–	139	–	9	148
Ms. Luo Xi	–	189	–	9	198
Mr. Luo Qiang	–	168	–	9	177
Non-executive director:					
Mr. Wang Haichen	200	–	–	–	200
Independent non-executive directors:					
Mr. Zuo Xinzhang	60	–	–	–	60
Mr. Chan Oi Fat	149	–	–	–	149
Mrs. Hu Xiaomin	90	–	–	–	90
	499	602	–	38	1,139

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 (2021: 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, two (2021: three) were directors of the Company whose emoluments are included in the disclosures in note 11(a) above. The emoluments of the remaining three (2021: two) individuals were as follows:

	2022 **RMB'000**	2021 RMB'000
Salaries, allowances and other benefits	**626**	336
Contributions to defined contribution retirement plans	**68**	9
	694	345

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

	2022 **No of individuals**	2021 No of individuals
Nil to HK$1,000,000	**3**	2

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

	Year ended 31 December	
	2022 **No of individuals**	2021 No of individuals
Nil to HK$1,000,000	**3**	2

12. INCOME TAX CREDIT

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

	2022 **RMB'000**	2021 RMB'000
Current tax	**–**	–
Deferred tax *(Note 18)*	**(6,372)**	(4,124)
Income tax credit	**(6,372)**	(4,124)

No Hong Kong profits tax was provided as the Group has no estimated assessable profit in Hong Kong during the years ended 31 December 2022 and 31 December 2021.

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 2022 and 31 December 2021.

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 years ended 31 December 2022 and 31 December 2021. According to "Announcement on Issues Concerning Continuation Relevant Tax Policies in Deepening the Implementation of the Western Development Strategy" (《關於延續西部大開發企業所得稅政策的公告》) (Announcement No. 23 [2020] of the Ministry of Finance of the People's Republic of China) (財政部公告[2020]第23號), from 1 January 2021 to 31 December 2030, 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%.

12. INCOME TAX CREDIT (CONTINUED)

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

	2022 **RMB'000**	2021 RMB'000
Loss before income tax credit	**(32,000)**	(30,647)
Tax calculated at EIT of 25% in the PRC	**(8,000)**	(7,662)
Tax effect of non-taxable income	**(29)**	(41)
Tax effect of non-deductible expenses	**525**	711
Tax effect of temporary differences not recognised	**630**	2,583
Tax effect of tax losses not recognised	**502**	285
Income tax credit	**(6,372)**	(4,124)

Deferred tax liabilities have not been established for the withholding tax that would be payable on the undistributed earnings of subsidiaries of RMB27,114,000 as at 31 December 2022 (2021: RMB38,733,000) as the Group is in a position to control the dividend policies of subsidiaries and it is probable that such amount with be reinvested in the foreseeable future.

13. DIVIDENDS

No dividend has been paid or declared by the Company during the year of 2022, nor has any dividend been proposed since the end of the year ended 31 December 2022 (2021: Nil).

14. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The basic loss 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 RMB21,527,000 (2021: loss attributable to owners of the Company of approximately RMB25,224,000), and the weighted average number of ordinary shares of 920,000,000 in issue (2021: 865,006,000 shares). The Company did not have any potential dilutive shares for the years ended 31 December 2022 and 2021. Accordingly, the diluted loss per share are the same as the basic loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Construction in progress 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
Cost							
At 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 and 1 January 2022	91,412	6,911	76,476	167	1,184	4,797	180,947
Additions	–	9,675	1,102	–	145	275	11,197
Transfer	129	(11,496)	11,367	–	–	–	–
Written-off	–	–	(524)	–	–	–	(524)
Disposals	–	–	–	–	–	(262)	(262)
At 31 December 2022	91,541	5,090	88,421	167	1,329	4,810	191,358
Accumulated depreciation and impairment							
At 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 and 1 January 2022	19,431	–	20,146	67	709	3,577	43,930
Depreciation	3,024	–	6,497	6	252	313	10,092
Written-off	–	–	(112)	–	–	–	(112)
Disposals	–	–	–	–	–	(139)	(139)
At 31 December 2022	22,455	–	26,531	73	961	3,751	53,771
Net book value							
At 31 December 2021	71,981	6,911	56,330	100	475	1,220	137,017
At 31 December 2022	69,086	5,090	61,890	94	368	1,059	137,587

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Based on an outlook of the development progress in current year, for the purpose of impairment testing, there are 4 CGUs subject to impairment assessment as at 31 December 2022 (2021: 1 CGU).

(a) 廣元同創新材料有限公司 (Guangyuan Tongchuang New Materials Company Limited)* ("Guangyuan Tongchuang")

For this CGU, management carried out an impairment test on the property, plant and equipment as at 31 December 2022, with carry amount of RMB22,248,000 (2021: RMB26,044,000).

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 less estimated costs, discounted at a pre-tax discount rate of 14% (2021: 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 business.

As a result of the above assessment, no impairment loss was recognised for the property, plant and equipment for the year ended 31 December 2022 (2021: RMB2,637,000).

(b) 四川蜀塔實業有限公司 (Sichuan Saftower Industry Company Limited)*("Sichuan Saftower")

For this CGU, management carried out an impairment test on the property, plant and equipment as at 31 December 2022, with carry amount of RMB23,662,000.

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 Sichuan Saftower, which reflects cash flow 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 business.

As a result of the above assessment, no impairment loss was recognised for the property, plant and equipment for the year ended 31 December 2022.

(c) 廣元蜀塔電纜有限公司及廣元蜀塔科技有限公司 (Guangyuan Saftower Cable Company Limited)* ("Guangyuan Saftower") and (Guangyuan Saftower Technology Company Limited)* ("Guangyuan Saftower Technology")

For this CGU, management carried out an impairment test on the property, plant and equipment as at 31 December 2022, with carry amount of RMB63,837,000.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) 廣元蜀塔電纜有限公司及廣元蜀塔科技有限公司 (Guangyuan Saftower Cable Company Limited)* ("Guangyuan Saftower") and (Guangyuan Saftower Technology Company Limited)* ("Guangyuan Saftower Technology") (Continued)

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 Saftower and Guangyuan Saftower Technology, which reflects cash flow 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 business.

As a result of the above assessment, no impairment loss was recognised for the property, plant and equipment for the year ended 31 December 2022.

(d) 雅安寶盛金屬材料有限公司 (Yaan Baosheng Metal Material Company Limited*) ("Yaan Baosheng")

For this CGU, management carried out an impairment test on the property, plant and equipment as at 31 December 2022, with carry amount of RMB27,654,000.

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 Yaan Baosheng, which reflects cash flow less estimated costs, discounted at a pre-tax discount rate of 19%. 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 business.

As a result of the above assessment, no impairment loss was recognised for the property, plant and equipment for the year ended 31 December 2022.

As at 31 December 2022, the Group's buildings with an aggregate net carrying amount of approximately RMB44,719,000 (2021: RMB46,685,000) were pledged as securities for the bank and other borrowings as set out in Note 29.

As at 31 December 2022, the Group's plant and machinery with an aggregate net carrying amount of approximately RMB19,085,000 (2021: RMB23,523,000) were pledged as securities for the bank and other borrowings as set out in Note 29.

As at 31 December 2022, the Group's plant and machinery with an aggregate net carrying amount of approximately RMB6,371,000 (2021: RMB7,877,000) were held under sale and leaseback liabilities as set out in Note 29.

* *English translated name is for identification purpose only*

16. INTANGIBLE ASSETS

	Computer softwares RMB'000
Cost	
At 1 January 2021	331
Addition	97
At 31 December 2021 and 1 January 2022	428
Addition	390
Disposals	(224)
At 31 December 2022	**594**
Accumulated amortisation	
At 1 January 2021	108
Amortisation	36
At 31 December 2021 and 1 January 2022	144
Amortisation	42
Disposals	(35)
At 31 December 2022	**151**
Net book value	
At 31 December 2021	284
At 31 December 2022	**443**

17. GOODWILL

	2022 **RMB'000**	2021 RMB'000
Cost		
At 1 January	**597**	–
Acquisition of a subsidiary *(Note 37)*	**–**	597
At 31 December	**597**	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 2022 and 2021. The following describes each key assumption on which management has based its 5 years cash flow projections to undertake impairment testing of goodwill.

	2022	2021
Pre-tax discount rates	**18.58%**	17.92%
Growth rates used to extrapolate cash flows beyond the forecast period	**2.00%**	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 2022 and 2021 as no circumstance indicated that the carrying value may be impaired.

* *English translated name is for identification purpose only*

18. DEFERRED TAX

	2022 RMB'000	2021 RMB'000
Deferred tax assets	**10,707**	4,442
Deferred tax liabilities	**1,120**	1,227

(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
At 1 January 2021	445
Acquisition of subsidiary	143
Credit to profit or loss for the year	3,854
At 31 December 2021 and 1 January 2022	4,442
Credit to profit or loss for the year	6,265
At 31 December 2022	10,707

(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
At 1 January 2021	1,497
Credit to profit or loss for the year	(270)
At 31 December 2021 and 1 January 2022	1,227
Credit to profit or loss for the year	(107)
At 31 December 2022	1,120

The Group has not recognised deferred tax assets in respect of tax losses arising in the PRC of RMB502,000 (2021: RMB285,000), 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.

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
Cost					
At 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)
At 31 December 2021	8,659	—	3,593	112	12,364
Derecognised upon termination of lease	(1,045)	—	—	—	(1,045)
At 31 December 2022	7,614	—	3,593	112	11,319
Accumulated depreciation					
At 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 and 1 January 2022	2,199	—	1,162	12	3,373
Depreciation	185	—	1,432	21	1,638
Derecognised upon termination of lease	(574)	—	—	—	(574)
At 31 December 2022	**1,810**	**—**	**2,594**	**33**	**4,437**
Net book value					
At 31 December 2021	6,460	—	2,431	100	8,991
At 31 December 2022	**5,804**	**—**	**999**	**79**	**6,882**

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 2022, the Group's land use rights with an aggregate net carrying amount of approximately RMB5,804,000 (2021: RMB6,460,000) were pledged as securities for the bank and other borrowings as set out in Note 29.

20. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**8,665**	11,393
Work-in-progress	**2,026**	4,183
Finished goods	**7,528**	4,833
	18,219	20,409

21. TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**127,598**	220,043
Less: Allowance for ECLs on trade receivables	**(8,245)**	(5,546)
	119,353	214,497
Bills receivables	**–**	100
	119,353	214,597

The credit period granted to customers is ranging from 0 to 365 days (2021: 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:

	2022 RMB'000	2021 RMB'000
0 to 60 days	**7,474**	45,354
61 to 180 days	**18,387**	62,800
181 to 365 days	**17,953**	50,604
Over 365 days	**83,784**	61,285
	127,598	220,043

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022	2021
	RMB'000	RMB'000
Non-current:		
Deposits	**1,625**	1,625
Prepayments	**5,538**	6,095
	7,163	7,720
Current:		
Prepayments	**1,380**	447
Prepayments to suppliers	**24,681**	11,594
Loan receivables *(note (a))*	**34,500**	34,500
Deposits	**170**	101
VAT recoverable	**17,699**	15,913
Other receivables	**12,480**	5,235
Less: Allowance for ECLs on other receivables	**(308)**	(73)
	90,602	67,717
	97,765	75,437

(a) Loan receivables are unsecured and repayable on demand, carry interest ranging from 7.5% to 12.0% per annum and are repayable according to the loan agreements.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2022	2021
	RMB'000	RMB'000
Forward contracts	**–**	1,200

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	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Amounts due from shareholders				
Mr. Wang Xiaozhong	**—**	19	**38**	157
Mr. Dang Jun	**150**	150	**150**	—
Mr. Dang Fei	**—**	—	**—**	7,761
	150	169	**188**	7,918

	2022 RMB'000	2021 RMB'000
Amount due to a shareholder		
Mr. Dang Fei	**12,643**	7,865

	2022 RMB'000	2021 RMB'000
Amount due to non-controlling interest		
Mr. Qin Chunlin *(note (a))*	**1,713**	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.

25. BANK BALANCES AND CASH

Bank balances and cash 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:

	2022 **RMB'000**	2021 RMB'000
RMB	**698**	6,663
United State dollar ("**US$**")	**3**	2
Hong Kong dollar ("**HK$**")	**2**	3
	703	6,668

26. CONTRACT LIABILITIES

	2022 **RMB'000**	2021 RMB'000
Contract liabilities arising from sales of goods	**17,583**	23,064

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:

	2022 **RMB'000**	2021 RMB'000
At 1 January	**23,064**	3,021
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at beginning of year	**(26,814)**	(2,712)
Increase in contract liabilities as a result of cash received, excluding amounts recognised during the year	**21,333**	22,755
At 31 December	**17,583**	23,064

27. TRADE PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	**53,900**	65,545

The credit period on purchases from suppliers is generally ranging from 0 to 120 days (2021: 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:

	2022 RMB'000	2021 RMB'000
0 to 60 days	**24,807**	26,057
61 to 180 days	**7,931**	24,889
181 to 365 days	**9,093**	10,479
Over 365 days	**12,069**	4,120
	53,900	65,545

28. ACCRUALS AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Accrued operating expenses	**4,625**	4,831
Accrued employee benefit expense	**2,490**	2,065
Payables for purchase of property, plant and equipment	**8,257**	8,309
Other taxes payable	**18,803**	11,229
Interest payable	**5,997**	3,696
Deposits received	**1,693**	2,028
Other payables	**9,342**	4,225
	51,207	36,383

29. BORROWINGS

	2022 RMB'000	2021 RMB'000
Current:		
Secured and guaranteed interest-bearing bank borrowings repayable within one year *(Note (i) & (ii))*	**79,351**	98,300
Secured and guaranteed interest-bearing other borrowings repayable within one year *(Note (i) & (ii))*	**14,966**	31,600
Unsecured interest-bearing other borrowings repayable within one year *(Note (iii))*	**18,000**	34,000
Sale and leaseback liabilities *(Note (iv))*	**1,385**	2,758
	113,702	166,658
Non-current:		
Secured and guaranteed interest-bearing bank borrowings repayable after one year *(Note (i) & (ii))*	**2,700**	—
Sale and leaseback liabilities	**75**	1,459
	2,775	1,459

Notes:

(i) The bank borrowings and other borrowings are secured by:

(a) Buildings with an aggregate net carrying amount of approximately RMB44,719,000 as at 31 December 2022 (2021: RMB46,685,000) as disclosed in Note 15;

(b) Land use rights with an aggregate net carrying amount of approximately RMB5,804,000 as at 31 December 2022 (2021: RMB6,460,000) 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 RMB19,085,000 as at 31 December 2022 (2021: RMB23,523,000) as disclosed in Note 15; and

(h) 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.

(iv) As at 31 December 2022, the Group's plant and machinery with an aggregate net carrying amount of approximately RMB6,371,000 (2021: RMB7,877,000) were held under sale and leaseback liabilities.

29. BORROWINGS (CONTINUED)

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

	2022 **RMB'000**	2021 RMB'000
On demand or within one year	**112,317**	163,900
More than one year, but not exceeding two years	**2,700**	—
	115,017	163,900

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

	2022 **RMB'000**	2021 RMB'000
On demand or within one year	**1,385**	2,758
More than one year, but not exceeding two years	**75**	1,385
More than two year, but not exceeding five years	**—**	74
	1,460	4,217

30. DEFERRED INCOME

	2022 **RMB'000**	2021 RMB'000
At 1 January	**2,085**	2,453
Credit to profit or loss	**(368)**	(368)
At 31 December	**1,717**	2,085
Less: Current portion	**(368)**	(368)
Non-current portion	**1,349**	1,717

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

For the year ended 31 December 2022

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:

	2022 **RMB'000**	2021 RMB'000
Land use rights, carried at depreciated costs	**6,273**	6,460
Leasehold building, carried at depreciated costs	**843**	2,431
Motor vehicle, carried at depreciated costs	**79**	100

Lease liabilities

	Plant and machinery **RMB'000**	**Leasehold building** **RMB'000**	**Motor vehicle** **RMB'000**
At 1 January 2021	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)
At 31 December 2021 and 1 January 2022	—	2,513	85
Derecognised upon termination of lease	—	(607)	—
Interest expense	—	68	8
Lease payments	—	(1,424)	(40)
At 31 December 2022	—	550	53

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
As at 31 December 2022			
Not later than one year	**597**	**(10)**	**587**
Later than one year and not later than two years	**17**	**(1)**	**16**
	614	**(11)**	**603**
As at 31 December 2021			
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
	2,716	(118)	2,598

The present value of future lease payments are analysed as:

	2022 RMB'000	2021 RMB'000
Current liabilities	**587**	1,626
Non-current liabilities	**16**	972
	603	2,598

32. SHARE CAPITAL

	Number	Amount RMB'000
Authorised:		
Ordinary shares of US$1 each upon incorporation	50,000	345
At 1 January 2021, 31 December 2021 and 31 December 2022	4,000,000,000	35,994
Issued and fully paid:		
Issue of ordinary shares of US$1 upon incorporation	1	—*
At 1 January 2021	800,000,000	7,226
Issue of shares upon subscription *(Note (a))*	120,000,000	996
At 31 December 2021 and 31 December 2022	920,000,000	8,222

* Represents the amount less than RMB1,000

Note:

(a) 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.

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 2021	30,642	(2,547)	(1,874)	26,221
Loss and total comprehensive expense for the year	—	—	(591)	(591)
Exchange difference on translating of foreign operations	—	(1,176)	—	(1,176)
Issue of shares upon subscription *(note 32)*	6,478	—	—	6,478
Share issue expenses	(9)	—	—	(9)
At 31 December 2021 and 1 January 2022	37,111	(3,723)	(2,465)	30,923
Loss and total comprehensive expense for the year	—	—	(626)	(626)
Exchange difference on translating of foreign operations	—	3,314	—	3,314
At 31 December 2022	37,111	(409)	(3,091)	33,611

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33. RESERVES (CONTINUED)

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

Reserves	Description and purpose
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.

34. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Note	**2022 RMB'000**	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		**—***	—*
Amounts due from subsidiaries		**49,370**	45,497
		49,370	45,497
Current asset			
Bank balances and cash		**2**	3
		2	3
Current liabilities			
Accruals and other payables		**1,430**	726
Amount due to a subsidiary		**6,109**	5,629
		7,539	6,355
Net current liabilities		**(7,537)**	(6,352)
Net assets		**41,833**	39,145
EQUITY			
Share capital	*32*	**8,222**	8,222
Reserves	*33*	**33,611**	30,923
Total equity		**41,833**	39,145

* Represents the amount less than RMB1,000

On behalf of the directors

Dang Fei
Director

Wang Xiaozhong
Director

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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	
				2022	2021
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%(1)**	100%(1)
Weichi Investment Limited ("**Weichi Investment**")	BVI, 15 November 2018, Limited liability company	Investment holding in BVI	US$1	**100%(1)**	100%(1)
Wechi Int'l Investment Limited ("**Wechi Int'l**")	Hong Kong, 27 December 2018, limited liability company	Investment holding in Hong Kong	HK$1	**100%(1)**	100%(1)
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%(1)**	100%(1)
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%(1)**	100%(1)
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%(1)**	100%(1)

* *English translated names are for identification purpose only*

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 2022	Percentage of ownership interests 2021
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%[(1)]**	100%[(1)]
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%[(1)]**	100%[(1)]
Yaan Baosheng[(2)]	The PRC, 1 September 2020, limited liability company	processing of aluminum cast-rolled coil and aluminum plate manufacturing of foil in the PRC	RMB14,000,000	**70%[(1)]**	70%[(1)]
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%[(1)]**	100%[(1)]
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%[(1)]**	56.67%[(1)]

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*

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.

	Guangyuan Tongchuang	
	2022 **RMB'000**	2021 RMB'000
For the year ended 31 December		
Revenue	**145,901**	86,705
Expenses	**(150,831)**	(87,957)
Loss for the year	**(4,930)**	(1,252)
Total comprehensive expense	**(4,930)**	(1,252)
Loss allocated to NCI	**(2,137)**	(543)
Dividends paid to NCI	**–**	–
For the year ended 31 December		
Cash flows from (used in) operating activities	**2,702**	(3,224)
Cash flows from investing activities	**133**	1
Cash flows (used in) from financing activities	**(2,836)**	3,227
Net cash (outflows) inflows	**(1)**	4
As at 31 December		
Current assets	**71,060**	65,029
Non-current assets	**25,990**	27,108
Current liabilities	**(32,760)**	(22,033)
Non-current liabilities	**(7,180)**	(8,064)
Net assets	**57,110**	62,040
Accumulated NCI	**22,479**	24,616

36. NON-CONTROLLING INTERESTS (CONTINUED)

	Yaan Baosheng	
	2022 RMB'000	2021 RMB'000
For the year ended 31 December		
Revenue	**391,067**	159,180
Expenses	**(397,615)**	(161,699)
Loss for the year	**(6,548)**	(2,519)
Total comprehensive expense	**(6,548)**	(2,519)
Loss allocated to NCI	**(1,964)**	(756)
Dividends paid to NCI	**–**	–
For the year ended 31 December		
Cash flows from (used in) operating activities	**20,611**	(19,076)
Cash flows used in investing activities	**(7,903)**	(11,088)
Cash flows (used in) from financing activities	**(17,983)**	34,643
Net cash (outflows) inflows	**(5,275)**	4,479
As at 31 December		
Current assets	**85,702**	91,806
Non-current assets	**36,595**	27,729
Current liabilities	**(118,216)**	(108,355)
Non-current liabilities	**–**	(551)
Net assets	**4,081**	10,629
Accumulated NCI	**1,224**	3,188

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:

	Fair value recognised on acquisition RMB'000
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)
Total identifiable net assets at fair value	9,203
Goodwill on acquisition *(Note 17)*	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)

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 RMB597,000, 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.

38. RELATED PARTY TRANSACTIONS

(a) As at 31 December 2022 and 31 December 2021, 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 2022 and 31 December 2021, 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:

	2022 **RMB'000**	2021 RMB'000
Salaries, allowance and other benefits	**1,445**	1,369
Contributions to defined contribution retirement plans	**156**	71
	1,601	1,440

(d) As at 31 December 2022 and 31 December 2021, 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.

39. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH LOWS

(a) Major non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB nil and RMB nil respectively, in respect of lease arrangements for office (2021: of RMB2,660,000 and RMB2,660,000).

(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)*
At 1 January 2021	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	–	–
At 31 December 2021 and 1 January 2022	168,117	3,696	2,598	7,865	1,800
Proceeds from borrowings/a shareholder	**87,922**	**–**	**–**	**4,778**	**–**
Repayments of borrowings	**(139,562)**	**–**	**–**	**–**	**–**
Repayment to non-controlling interest	**–**	**–**	**–**	**–**	**(87)**
Payments of lease liabilities	**–**	**–**	**(1,465)**	**–**	**–**
Interest paid on borrowings	**–**	**(7,918)**	**–**	**–**	**–**
Total changes from cash flows	**(51,640)**	**(7,918)**	**(1,465)**	**4,778**	**(87)**
Non-cash changes:					
Derecognised upon termination of lease	**–**	**–**	**(606)**	**–**	**–**
Interest expense – Lease liabilities	**–**	**–**	**76**	**–**	**–**
Interest expense – Borrowings	**–**	**10,219**	**–**	**–**	**–**
Total other changes	**–**	**10,219**	**(530)**	**–**	**–**
At 31 December 2022	**116,477**	**5,997**	**603**	**12,643**	**1,713**

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40. CAPITAL COMMITMENTS

	2022 RMB'000	2021 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:

	2022 RMB'000	2021 RMB'000
Financial assets		
At fair value through profit or loss	–	1,200
At amortised cost		
Trade and bills receivables	119,353	214,597
Deposits and other receivables	48,467	41,388
Amounts due from shareholders	150	169
Bank balances and cash	703	6,668
	168,673	262,822
Financial liabilities		
At amortised cost		
Trade payables	53,900	65,545
Accruals and other payables	30,711	23,126
Amount due to a shareholder	12,643	7,865
Amount due to non-controlling interest	1,713	1,800
Borrowings	116,477	168,117
Lease liabilities	603	2,598
	216,047	269,051

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.

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 %
At 31 December 2022				
Current (not past due)	**57,153**	**(270)**	**56,883**	**0.47%**
Past due 1 to 60 days	**5,216**	**(60)**	**5,156**	**1.15%**
Past due 61 to 180 days	**24,980**	**(407)**	**24,573**	**1.63%**
Past due 181 to 365 days	**14,491**	**(263)**	**14,228**	**1.81%**
Past due over 365 days	**25,758**	**(7,245)**	**18,513**	**28.13%**
	127,598	**(8,245)**	**119,353**	**6.46%**
At 31 December 2021				
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%
	220,043	(5,546)	214,497	2.52%

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

	Trade receivables		Other receivables		Total	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
At 1 January	**5,546**	2,463	**73**	33	**5,619**	2,496
Impairment losses recognised during the year *(Note 10)*	**2,699**	3,083	**235**	40	**2,934**	3,123
At 31 December	**8,245**	5,546	**308**	73	**8,553**	5,619

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, 90.9% (2021: 46.0%) of the total trade receivables were due from the Group's five largest customers, and 55.1% (2021: 23.8%) 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 2022 and 31 December 2021, 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 of allowance for ECLs on other receivables of RMB235,000 (2021: RMB40,000) during the year ended 31 December 2022.

The rates of ECLs for deposits and other receivables of 12-month ECL assessment range from 0.29% to 3.26% as at 31 December 2022 (2021: 0.07% to 1.23%).

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 2022 (2021: Nil).

Bank balances and cash

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 2022 (2021: 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 2022 is representing the total banking facility attributable from drawdown by the relevant subsidiaries of RMB126.8 million (2021: RMB123.5 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.

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.

	2022		2021	
	Effective interest rate %	**Carrying amount RMB'000**	Effective interest rate %	Carrying amount RMB'000
Fixed rate liabilities:				
Borrowing	**4.5%—23.76%**	**95,477**	3.45%–23.76%	148,017
Lease liabilities	**4.75%—12.53%**	**603**	4.75%–12.53%	2,598
Variable rate liabilities:				
Borrowings	**3.90%—5.75%**	**21,000**	4.05%–5.85%	20,100

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 loss for the years are as follows:

	2022 RMB'000	2021 RMB'000
Increase (decrease) in loss for the year		
— as a result of increase in interest rate	**(152)**	(101)
— as a result of decrease in interest rate	**152**	101

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
At 31 December 2022					
Trade payables	**53,900**	**53,900**	**53,900**	**–**	**–**
Accruals and other payables	**30,711**	**30,711**	**30,711**	**–**	**–**
Amount due to a shareholder	**12,643**	**12,643**	**12,643**	**–**	**–**
Amount due to non-controlling interest	**1,713**	**1,713**	**1,713**	**–**	**–**
Borrowings	**116,477**	**120,058**	**116,967**	**571**	**2,520**
Lease liabilities	**603**	**614**	**597**	**17**	**–**
	216,047	**219,639**	**216,531**	**588**	**2,520**
At 31 December 2021					
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
	269,051	277,774	275,247	2,435	92

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**
Financial assets at fair value through profit or loss				
Forward contracts	**1,200**	**–**	**–**	**1,200**

As at 31 December 2022, no financial instruments classified as fair value through profit or loss.

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:

	2022 **RMB'000**	2021 RMB'000
Borrowings	**116,477**	168,117
Lease liabilities	**603**	2,598
Amount due to a shareholder	**12,643**	7,865
Amount due to non-controlling interest	**1,713**	1,800
Less: Cash and cash equivalents	**(703)**	(6,668)
Net debt	**130,733**	173,712
Total equity	**135,509**	161,091
Net debt to equity ratio	**96%**	108%

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 2023.

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:

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	**757,901**	544,389	518,159	685,530
Cost of sales	**(773,478)**	(538,333)	(481,703)	(631,656)
Gross (loss) profit	**(15,577)**	6,056	36,456	53,874
Other income and gains	**24,819**	15,033	8,222	20,838
Selling and distribution expenses	**(5,617)**	(4,498)	(6,006)	(9,068)
Administrative and other expenses	**(21,996)**	(29,749)	(18,591)	(15,491)
Impairment losses on trade and other receivables, net	**(2,934)**	(3,123)	(246)	—
Impairment losses on property, plant and machinery	**—**	(2,637)	—	—
Listing expenses	**—**	—	(7,795)	(8,920)
Finance costs	**(10,695)**	(11,729)	(9,374)	(7,877)
Share of result of a joint venture	**—**	—	—	538
(Loss) profit before income tax credit, net (expense)	**(32,000)**	(30,647)	2,666	33,894
Income tax credit (expense)	**6,372**	4,124	124	(4,141)
(Loss) profit for the year	**(25,628)**	(26,523)	2,790	29,753
Other comprehensive income (expense):				
Item that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	**46**	61	(535)	—
Total comprehensive (expense) income for the year	**(25,582)**	(26,462)	2,255	29,753
Loss (profit) for the year attributable to:				
Owners of the Company	**(21,527)**	(25,224)	1,895	26,607
Non-controlling interests	**(4,101)**	(1,299)	895	3,146
	(25,628)	(26,523)	2,790	29,753
Total comprehensive (expense) income for the year attributable to:				
Owners of the Company	**(21,481)**	(25,163)	1,360	26,607
Non-controlling interests	**(4,101)**	(1,299)	895	3,146
	(25,582)	(26,462)	2,255	29,753
Assets and liabilities				
Current assets	**229,093**	310,760	214,756	204,838
Non-current assets	**163,379**	159,051	134,318	129,449
Current liabilities	**251,703**	303,345	165,536	187,504
Non-current liabilities	**5,260**	5,375	7,394	7,382