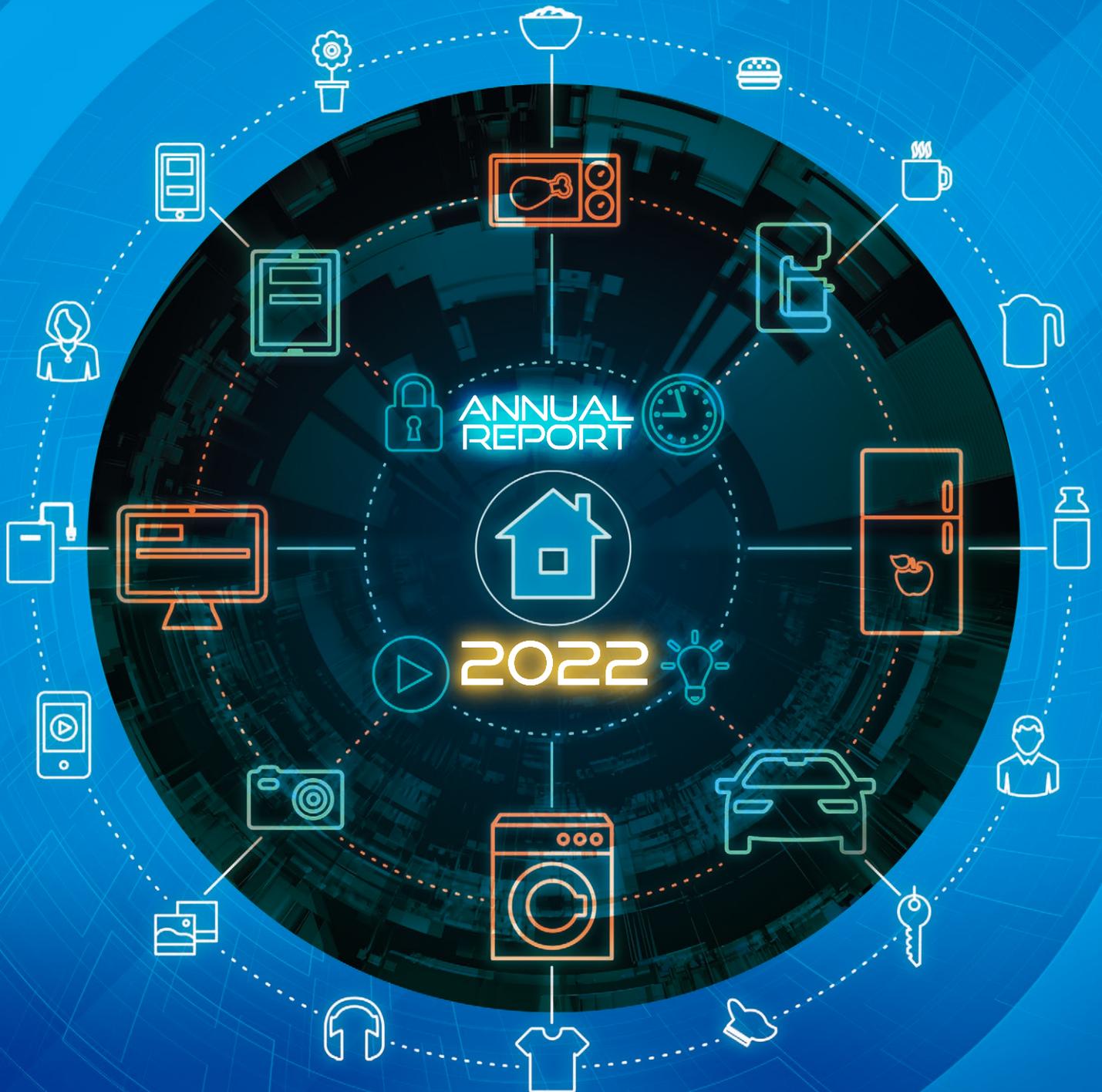


**BRAINHOLE TECHNOLOGY LIMITED**  
**脑洞科技有限公司**

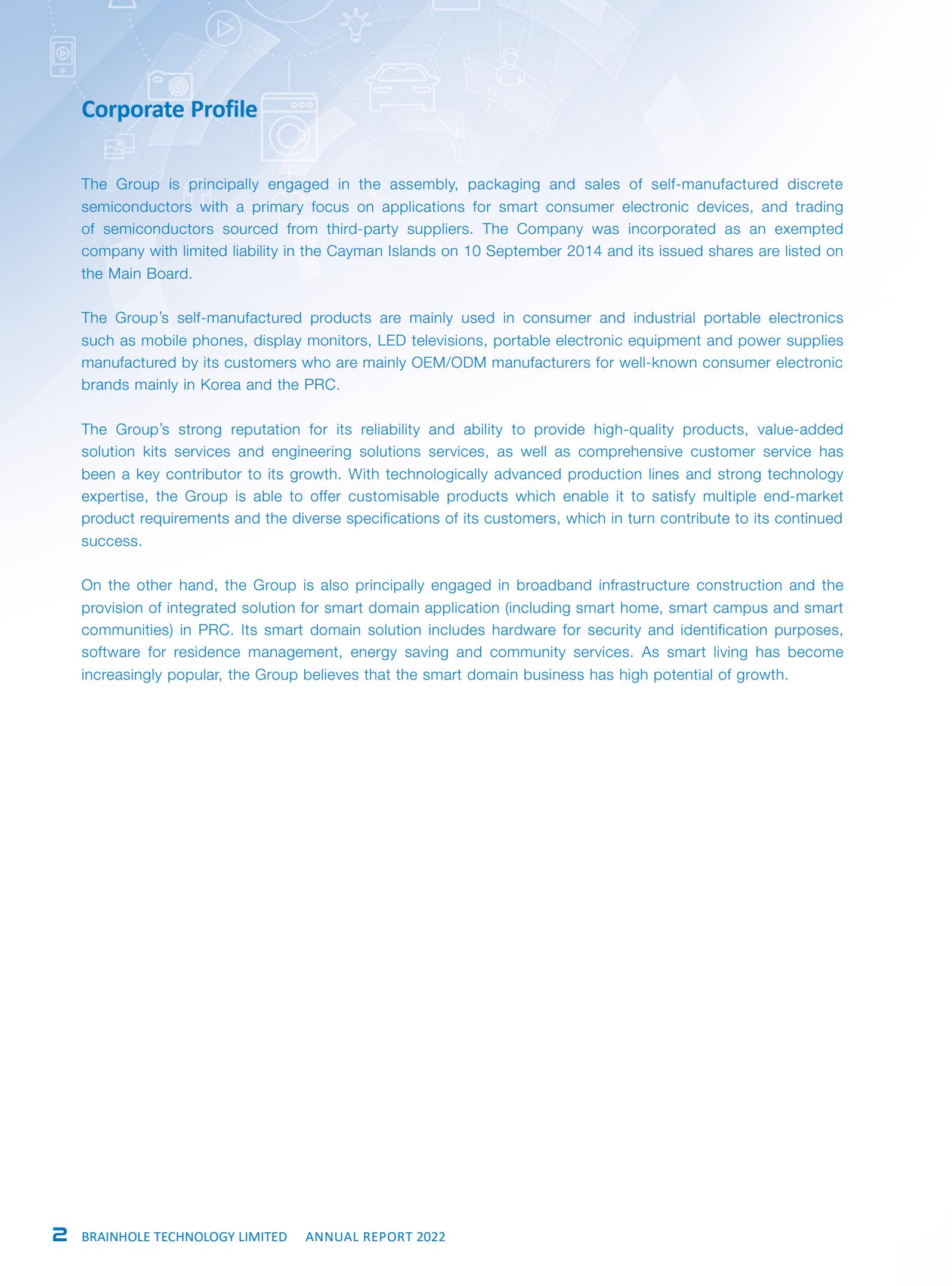
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 2203)



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## Corporate Profile

The Group is principally engaged in the assembly, packaging and sales of self-manufactured discrete semiconductors with a primary focus on applications for smart consumer electronic devices, and trading of semiconductors sourced from third-party suppliers. The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 September 2014 and its issued shares are listed on the Main Board.

The Group's self-manufactured products are mainly used in consumer and industrial portable electronics such as mobile phones, display monitors, LED televisions, portable electronic equipment and power supplies manufactured by its customers who are mainly OEM/ODM manufacturers for well-known consumer electronic brands mainly in Korea and the PRC.

The Group's strong reputation for its reliability and ability to provide high-quality products, value-added solution kits services and engineering solutions services, as well as comprehensive customer service has been a key contributor to its growth. With technologically advanced production lines and strong technology expertise, the Group is able to offer customisable products which enable it to satisfy multiple end-market product requirements and the diverse specifications of its customers, which in turn contribute to its continued success.

On the other hand, the Group is also principally engaged in broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities) in PRC. Its smart domain solution includes hardware for security and identification purposes, software for residence management, energy saving and community services. As smart living has become increasingly popular, the Group believes that the smart domain business has high potential of growth.

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhang Liang Johnson (*Chairman*)

Ms. Wan Duo

### Independent Non-Executive Directors

Mr. Xu Liang

Mr. Chen Johnson Xi

Ms. Zhang Yibo

## COMPANY SECRETARY

Mr. Kwong Lun Kei Victor

## AUTHORISED REPRESENTATIVES

Ms. Wan Duo

Mr. Kwong Lun Kei Victor

## AUDIT COMMITTEE

Mr. Xu Liang (*Chairperson*)

Mr. Chen Johnson Xi

Ms. Zhang Yibo

## REMUNERATION COMMITTEE

Mr. Chen Johnson Xi (*Chairperson*)

Mr. Xu Liang

Ms. Zhang Yibo

Ms. Wan Duo

## NOMINATION COMMITTEE

Ms. Zhang Yibo (*Chairperson*)

Mr. Xu Liang

Mr. Chen Johnson Xi

Ms. Wan Duo

## AUDITOR

SHINEWING (HK) CPA Limited

Certified Public Accountants

17/F, Chubb Tower, Windsor House

311 Gloucester Road

Causeway Bay

Hong Kong

## PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

Dah Sing Bank

China CITIC Bank

## REGISTERED OFFICE

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman

KY1-1111

Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 1801-03, 18/F

One Taikoo Place

979 King's Road

Quarry Bay

Hong Kong

## HONG KONG LEGAL ADVISER

Michael Li & Co.

19/F., Prosperity Tower

No. 39 Queen's Road Central

Central

Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICES

### Principal share registrar

Conyers Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman

KY1-1111

Cayman Islands

### Hong Kong branch share registrar

Tricor Investor Services Limited

17/F, Far East Finance Centre

16 Harcourt Road

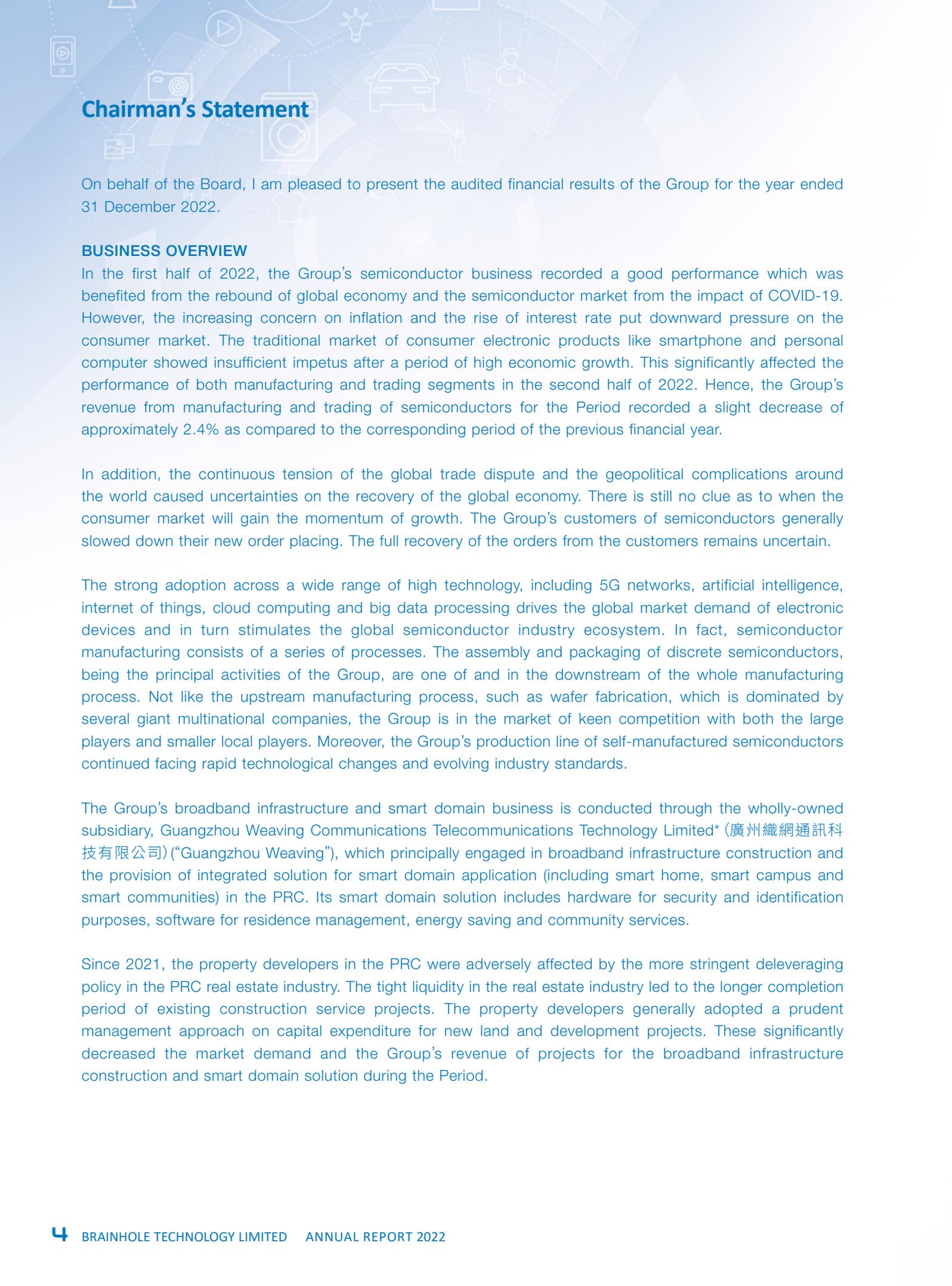
Hong Kong

## STOCK CODE

2203

## WEBSITE OF THE COMPANY

[www.brainholetechnology.com](http://www.brainholetechnology.com)



## Chairman's Statement

On behalf of the Board, I am pleased to present the audited financial results of the Group for the year ended 31 December 2022.

### BUSINESS OVERVIEW

In the first half of 2022, the Group's semiconductor business recorded a good performance which was benefited from the rebound of global economy and the semiconductor market from the impact of COVID-19. However, the increasing concern on inflation and the rise of interest rate put downward pressure on the consumer market. The traditional market of consumer electronic products like smartphone and personal computer showed insufficient impetus after a period of high economic growth. This significantly affected the performance of both manufacturing and trading segments in the second half of 2022. Hence, the Group's revenue from manufacturing and trading of semiconductors for the Period recorded a slight decrease of approximately 2.4% as compared to the corresponding period of the previous financial year.

In addition, the continuous tension of the global trade dispute and the geopolitical complications around the world caused uncertainties on the recovery of the global economy. There is still no clue as to when the consumer market will gain the momentum of growth. The Group's customers of semiconductors generally slowed down their new order placing. The full recovery of the orders from the customers remains uncertain.

The strong adoption across a wide range of high technology, including 5G networks, artificial intelligence, internet of things, cloud computing and big data processing drives the global market demand of electronic devices and in turn stimulates the global semiconductor industry ecosystem. In fact, semiconductor manufacturing consists of a series of processes. The assembly and packaging of discrete semiconductors, being the principal activities of the Group, are one of and in the downstream of the whole manufacturing process. Not like the upstream manufacturing process, such as wafer fabrication, which is dominated by several giant multinational companies, the Group is in the market of keen competition with both the large players and smaller local players. Moreover, the Group's production line of self-manufactured semiconductors continued facing rapid technological changes and evolving industry standards.

The Group's broadband infrastructure and smart domain business is conducted through the wholly-owned subsidiary, Guangzhou Weaving Communications Telecommunications Technology Limited\* (廣州織網通訊科技有限公司) ("Guangzhou Weaving"), which principally engaged in broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities) in the PRC. Its smart domain solution includes hardware for security and identification purposes, software for residence management, energy saving and community services.

Since 2021, the property developers in the PRC were adversely affected by the more stringent deleveraging policy in the PRC real estate industry. The tight liquidity in the real estate industry led to the longer completion period of existing construction service projects. The property developers generally adopted a prudent management approach on capital expenditure for new land and development projects. These significantly decreased the market demand and the Group's revenue of projects for the broadband infrastructure construction and smart domain solution during the Period.

## Chairman's Statement

In view of this, the Group was more cautious on cost management and took more conservative approach on new projects. The Group tended to allocate our resources on more profitable projects to optimize the product mix. As a result, the gross profit reduced relatively less extent than the revenue for the broadband infrastructure and smart domain business.

Moreover, certain policies implemented by the PRC government also brought challenges to the Group. The state policy on “Facilitating Fast and More Affordable Internet Connection” continues to put downward pressure on the profitability of the broadband infrastructure industry. Although the commission income shared from telecom operators for the promotion of broadband remained relatively stable for the Period, there is uncertainty on its expansion capacity in the long run.

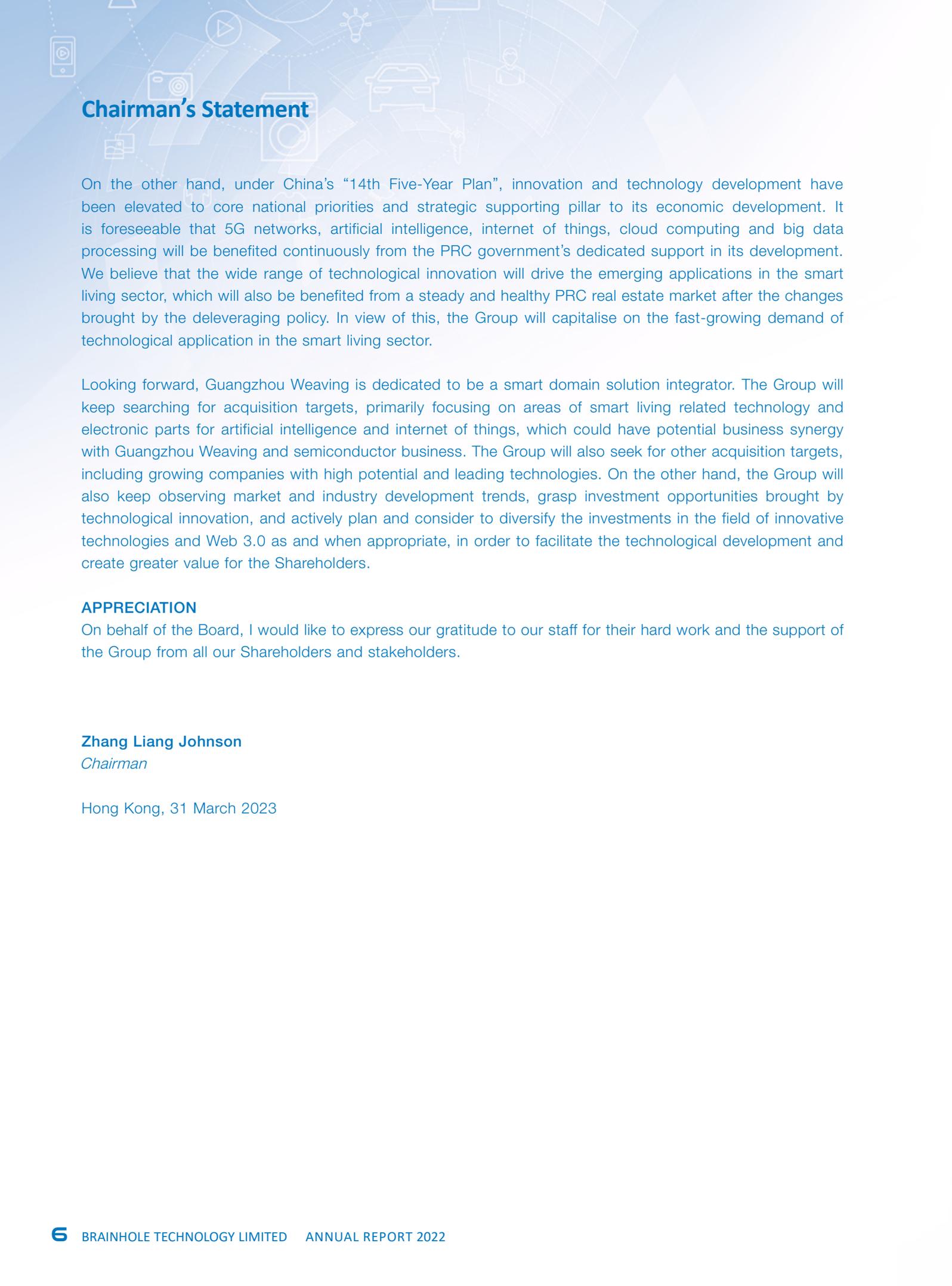
The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group strived harder to prepare ourselves and actively leverage our strength on smart technology to capture investment opportunities and diversify asset portfolio. Hence, the Group commenced the strategic investments business.

During the Period, the Group has made investments in cryptocurrencies and listed equity securities, mainly comprising of Ether and leading technology companies and high quality large companies listed in the United States and Hong Kong. Although the Group recorded loss arising on changes in fair value for these investments as at 31 December 2022, the Group still holds positive view on the future prospect of these investments. The Group will also continue to monitor and assess the performance of these investments and make timely and appropriate adjustments on the investment portfolio to enhance the investment returns for the Group and ultimately benefit the Shareholders as a whole.

### BUSINESS OUTLOOK

In the coming year, the global economic environment is expected to be complex and the prospect of the Group's semiconductors business will be full of challenges. The ongoing trade tension between China and the United States and the geopolitical complications around the world continue to affect the global semiconductor supply chain and the semiconductor market. The increasing concern on inflation and the rise of interest rate will put further downward pressure on the consumer market. The replacement cycle for the consumer electronic products like smartphone and personal computer is generally extended. There is still no clue as to when the consumer market will gain the momentum of growth. These in turn affect the Group's customers of semiconductors to take a conservative approach for the plan of new order placing.

Although the accelerated innovation and development of 5G technology and related emerging applications bring new business opportunities to the semiconductor industry, the Group also faces the challenges of higher technical standard from customers and more competitive market regionally and globally. Nevertheless, the Group intends to continue its research and development to strengthen its production process and quality control and will closely monitor the changes in the macro environment and make timely strategic development to seize market opportunities. Furthermore, the Group will also from time to time monitor the performance of the machineries so as to ensure customers' requirement on technical standard is met.



## Chairman's Statement

On the other hand, under China's "14th Five-Year Plan", innovation and technology development have been elevated to core national priorities and strategic supporting pillar to its economic development. It is foreseeable that 5G networks, artificial intelligence, internet of things, cloud computing and big data processing will be benefited continuously from the PRC government's dedicated support in its development. We believe that the wide range of technological innovation will drive the emerging applications in the smart living sector, which will also be benefited from a steady and healthy PRC real estate market after the changes brought by the deleveraging policy. In view of this, the Group will capitalise on the fast-growing demand of technological application in the smart living sector.

Looking forward, Guangzhou Weaving is dedicated to be a smart domain solution integrator. The Group will keep searching for acquisition targets, primarily focusing on areas of smart living related technology and electronic parts for artificial intelligence and internet of things, which could have potential business synergy with Guangzhou Weaving and semiconductor business. The Group will also seek for other acquisition targets, including growing companies with high potential and leading technologies. On the other hand, the Group will also keep observing market and industry development trends, grasp investment opportunities brought by technological innovation, and actively plan and consider to diversify the investments in the field of innovative technologies and Web 3.0 as and when appropriate, in order to facilitate the technological development and create greater value for the Shareholders.

### APPRECIATION

On behalf of the Board, I would like to express our gratitude to our staff for their hard work and the support of the Group from all our Shareholders and stakeholders.

**Zhang Liang Johnson**

*Chairman*

Hong Kong, 31 March 2023

# Management Discussion and Analysis

## BUSINESS REVIEW

### (i) Semiconductor business

The strong adoption across a wide range of high technology from 5G networks, artificial intelligence, internet of things, cloud computing and big data processing around the world in recent years continues to drive the need of technologies with higher power efficiency, speed and more complex functionalities. This has stimulated the global market demand for the semiconductor industry.

In general, semiconductor manufacturing consists of a series of processes, comprising of design of the integrated circuit (“IC”), preliminary testing of the viability of the design, wafer fabrication, assembly and packaging and final testing. The Group is principally engaged in the assembly, packaging and sales of its self-manufactured discrete semiconductors and trading of semiconductors sourced from third-party suppliers. The assembly and packaging are one of and in the downstream of the whole manufacturing process transforming semiconductor chips into functional devices which are used in a variety of end-use applications.

The design of IC and wafer fabrication are dominated by several giant multinational companies, while the market of assembly and packaging of discrete semiconductors included large players and smaller local players. Therefore, the Group, which is in the downstream of the supply chain of semiconductors, is facing more keen competition.

In the first half of 2022, the Group’s semiconductor business recorded a good performance which was benefited from the rebound of global economy and the semiconductor market from the impact of COVID-19. However, the increasing concern on inflation and the rise of interest rate put downward pressure on the consumer market. The traditional market of consumer electronic products like smartphone and personal computer showed insufficient impetus after a period of high economic growth. This significantly affected the performance of both manufacturing and trading segments in the second half of 2022. Hence, the Group’s revenue from manufacturing and trading of semiconductors for the Period recorded a slight decrease of approximately 2.4% as compared to the corresponding period of the previous financial year.

During the Period, the revenue from the manufacturing business of semiconductors decreased by approximately 5.2% as compared to the corresponding period of the previous financial year. In addition to its manufacturing business, the Group continued to operate its trading business during the Period, primarily to supplement its sales of self-manufactured products. The Group acts as a solution kits integrator and is engaged in trading of semiconductors that its customers specifically require. These semiconductors, however, are not manufactured by the Group. The product mix required by customers varies from time to time. During the Period, the revenue from trading of semiconductors increased by approximately 1.6% as compared to the corresponding period of the previous financial year.

In addition, the continuous tension of the global trade dispute and the geopolitical complications around the world caused uncertainties on the recovery of the global economy. There is still no clue as to when the consumer market will gain the momentum of growth. The Group’s customers of semiconductors generally slowed down their new order placing. The full recovery of the orders from the customers remains uncertain.

## Management Discussion and Analysis

### (ii) Broadband infrastructure and smart domain business

Guangzhou Weaving, the wholly-owned subsidiary of the Group, is principally engaged in broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities) in the PRC. Its smart domain solution includes hardware for security and identification purposes, software for residence management, energy saving and community services.

Since 2021, the property developers in the PRC were adversely affected by the more stringent deleveraging policy in the PRC real estate industry. The tight liquidity in the real estate industry led to the longer completion period of existing construction service projects. The property developers generally adopted a prudent management approach on capital expenditure for new land and development projects. These significantly decreased the market demand and the Group's revenue of projects for the broadband infrastructure construction and smart domain solution during the Period.

In view of this, the Group was more cautious on cost management and took more conservative approach on new projects. The Group tended to allocate our resources to more profitable projects to optimize the product mix.

Moreover, certain policies implemented by the PRC government also brought challenges to the Group. The state policy on "Facilitating Fast and More Affordable Internet Connection" continues to put downward pressure on the profitability of the broadband infrastructure industry. Although the commission income shared from telecom operators for the promotion of broadband remained relatively stable for the Period, there is uncertainty on its expansion capacity in the long run.

### (iii) Strategic investments business

The strategic investments business of the Group commenced during the Period. The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group aims to leverage our own advantages in the field of smart technology to capture investment opportunities and actively diversify the investments in the field of innovative technologies, in order to create greater value for the Shareholders.

The Group has made the investments in cryptocurrencies and listed equity securities during the Period.

#### *Cryptocurrencies*

On 31 October 2022, the Hong Kong Government issued the Policy Statement on the Development of Virtual Assets in Hong Kong, stating that the Hong Kong Government recognizes the potential of distributed ledger technologies and Web 3.0 to become the future trends in the development of finance and commerce. The Hong Kong Government is committed to providing a facilitating environment for promoting the sustainable development of the virtual asset sector through the calibration of a legal and regulatory regime.

## Management Discussion and Analysis

The Group agrees with the Hong Kong Government's views on the development of virtual assets in Hong Kong. The Group always hopes to leverage our own advantages in the field of smart technology to identify the opportunity of diversification and timely capture the new opportunities brought by blockchain and Web 3.0. Therefore, the Board planned to purchase cryptocurrencies as a preparation and starting point for diversifying investments in the field of innovative technologies.

As disclosed in the announcement of the Company dated 30 November 2022, the Company has approved to acquire up to HK\$24.0 million (equivalent to approximately US\$3.1 million) worth of cryptocurrencies in open market transactions. During the Period, the Group had purchased in open market transactions 1,202.45 units of Ether at an aggregate consideration of approximately US\$1.5 million (equivalent to approximately HK\$11.9 million). Please refer to the announcement of the Company dated 30 November 2022 for further details of the acquisition of cryptocurrencies.

As at 31 December 2022, the fair value of the acquired cryptocurrencies which the Group accounted for as digital assets in the consolidated financial statement was approximately US\$1.4 million (equivalent to approximately HK\$11.2 million). Hence, the decrease in fair value of the digital assets as at 31 December 2022 which amounted to approximately HK\$0.7 million was recognised in profit or loss.

On 11 February 2023, the Company has realised its investment in cryptocurrencies and disposed of an aggregate of 1,202.45 units of Ether through the open market at an aggregate consideration of approximately US\$1.8 million (equivalent to approximately HK\$14.2 million) (excluding transaction costs). Please refer to the announcement of the Company dated 13 February 2023 for further details of the disposal of cryptocurrencies.

Nevertheless, the Group still holds positive view on the future prospect of virtual assets moving into the areas of Web 3.0 and metaverse. The Group will strive to enhance and diversify its investment portfolio and increase the investment on cryptocurrencies as and when appropriate.

### ***Listed equity securities***

The listed equity investments mainly comprises leading technology companies and high quality large companies listed in the United States and Hong Kong.

During the Period, the Group acquired four US-listed equity securities and three Hong Kong-listed equity securities with the aggregate acquisition costs of approximately HK\$89.4 million and disposed of part of shareholdings of two US-listed equity securities with the aggregate carrying amounts of approximately HK\$10.2 million. The net sale proceeds of the disposals was approximately HK\$9.0 million, resulting in net realised loss of approximately HK\$1.2 million which recorded in the changes in fair value of financial assets at fair value through profit or loss ("FVTPL") in the consolidated statement of profit or loss and other comprehensive income.

At the end of the reporting period, the Group measured its listed equity securities at fair value based on the closing prices quoted in active markets. The Group recognised the unrealised loss of approximately HK\$8.7 million arising on the changes in fair value of financial assets at FVTPL.

## Management Discussion and Analysis

Movements in the carrying amount of the listed equity securities held by the Group during the year ended 31 December 2022 are as follows:

	2022 HK\$'000
Carrying amount at 1 January	–
Add: Acquisitions	89,429
Less: Disposals	(10,189)
Unrealised loss arising on changes in fair value	(8,658)
<b>Carrying amount at 31 December</b>	<b>70,582</b>

Details of the listed equity securities held by the Group as at 31 December 2022 are as follows:

Name of Hong Kong-listed equity securities	Number of shares held as at 31 December 2022	Fair value as at 31 December 2022 HK\$'000	Fair value as compared to the consolidated total assets of the Group as at 31 December 2022	Dividend received/ receivable for the year ended 31 December 2022 HK\$'000	Gain/(loss) arising on change in fair value recognised for the year ended 31 December 2022 HK\$'000
Wynn Macau, Limited (stock code: 1128)	578,000	5,029	1.51%	–	37
East Buy Holding Limited (stock code: 1797)	36,000	1,890	0.57%	–	(103)
Trip.com Group Limited (stock code: 9961)	21,000	5,746	1.72%	–	(240)
<b>Name of US-listed equity securities</b>					
Airbnb, Inc. (stock code: ABNB)	14,700	9,778	2.93%	–	(1,588)
Futu Holdings Limited (stock code: FUTU)	44,100	13,947	4.18%	–	(4,948)
New Oriental Education & Technology Group Inc. (stock code: EDU)	76,100	20,615	6.18%	–	(279)
Pinduoduo, Inc. (stock code: PDD)	21,400	13,577	4.07%	–	(1,537)
		70,582		–	(8,658)

The Group will closely monitor and assess the performance of these listed equity securities and make timely and appropriate adjustments on the investment portfolio to enhance the returns for the Group and realise the investments as and when appropriate.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

The Group recorded revenue of approximately HK\$263.6 million during the Period, as compared to the revenue of approximately HK\$321.5 million for the year ended 31 December 2021. The decrease in revenue was approximately HK\$58.0 million or 18.0% when compared to the previous financial year. It was primarily attributable to the decrease in the revenue of broadband infrastructure and smart domain business.

For semiconductor business, both manufacturing and trading segments benefited from the rebound of global economy and the semiconductor market from the impact of COVID-19 in the first half of 2022. However, the traditional market of consumer electronic products like smartphone and personal computer, after a period of high economic growth, showed insufficient impetus impacted by the factors of increasing concern on inflation and the rise of interest rate. This significantly affected the performance of both manufacturing and trading segments in the second half of 2022. As a result, the total revenue from the semiconductor business for the Period amounted to approximately HK\$216.0 million, representing a slight decrease of approximately HK\$5.2 million or 2.4%, as compared to the total revenue of approximately HK\$221.2 million for the year ended 31 December 2021.

During the Period, the Group recorded revenue of approximately HK\$122.8 million from sales of its self-manufactured semiconductors, representing a decrease of approximately HK\$6.7 million or 5.2% as compared to that of approximately HK\$129.5 million for the year ended 31 December 2021.

The Group's trading of semiconductors primarily complements sales of self-manufactured semiconductors when it provides solution kits services to its customers. During the Period, the Group's revenue derived from its trading of semiconductors amounted to approximately HK\$93.2 million, representing an increase of approximately HK\$1.5 million or 1.6% as compared to that of approximately HK\$91.7 million for the year ended 31 December 2021.

On the other hand, the revenue of broadband infrastructure and smart domain segment contributed by Guangzhou Weaving Group amounted to approximately HK\$47.6 million during the Period, compared to the revenue of approximately HK\$100.3 million for the year ended 31 December 2021. The decrease of approximately HK\$52.7 million or 52.5% was mainly because there were less projects for broadband infrastructure construction and smart domain solution during the Period.

### Gross profit and gross profit margin

The Group's gross profit amounted to approximately HK\$48.5 million for the Period, representing a decrease of approximately HK\$5.6 million or 10.3% from approximately HK\$54.1 million for the year ended 31 December 2021. It was mainly attributable to the decrease in revenue and gross profit of both semiconductors business and broadband infrastructure and smart domain business.

The Group's overall gross profit margin for the Period was approximately 18.4%, representing an increase of approximately 1.6 percentage points, as compared with gross profit margin of approximately 16.8% for the year ended 31 December 2021.

## Management Discussion and Analysis

For semiconductor business, the Group recorded gross profit of approximately HK\$27.4 million during the Period, as compared to the gross profit of approximately HK\$30.5 million for the year ended 31 December 2021. The decrease in gross profit was approximately HK\$3.1 million or 10.2% when compared to the previous financial year. The Group's gross profit margin of the semiconductor business also exhibited a slight decrease of approximately 1.1 percentage point, from approximately 13.8% for the year ended 31 December 2021 to approximately 12.7% for the Period. Such decrease in gross profit and gross profit margin was primarily the result of sales of varying types and volumes of self-manufactured and trading products (which carry different gross profit margins) sold by the Group to the customers.

Moreover, along with the decrease in the revenue of broadband infrastructure and smart domain business during the Period, the gross profit contributed by Guangzhou Weaving Group amounted to approximately HK\$21.1 million for the Period, representing a decrease of approximately HK\$2.5 million or 10.4% from approximately HK\$23.6 million for the year ended 31 December 2021. The gross profit margin of Guangzhou Weaving Group was recorded at approximately 44.4% and 23.5% respectively for the Period and for the year ended 31 December 2021. The increase in gross profit margin was mainly due to the decrease of projects for the broadband infrastructure construction and smart domain solution, which had a comparatively lower gross margin in the product mix of this segment.

### Changes in fair value of financial assets at FVTPL

As discussed above, the Group recorded net realised loss of approximately HK\$1.2 million arising from the disposals of part of listed equity securities and fair value loss of approximately HK\$8.7 million on the listed equity securities held as at 31 December 2022. The aggregate amount of approximately HK\$9.9 million was recognised in other losses in the consolidated statement of profit or loss and other comprehensive income.

### Changes in fair value of digital assets

As at 31 December 2022, the fair value of the 1,202.45 units of Ether acquired by the Group determined based on the then prevailing market prices was approximately US\$1.4 million (equivalent to approximately HK\$11.2 million). In accordance with the relevant accounting standards under HKFRSs, the Group accounts for the acquired cryptocurrencies as digital assets and measures the digital assets at fair value less costs to sell. The Group considers there are no significant "costs to sell" digital assets and hence measurement of digital assets is based on their fair values with changes in fair value recognised in profit or loss in the period of the changes. Consequently, the decrease in fair value of the digital assets as at 31 December 2022 which amounted to approximately HK\$0.7 million was recognised in other losses in the consolidated statement of profit or loss and other comprehensive income.

### Selling and Distribution Costs

The Group's selling and distribution costs for the Period was approximately HK\$6.8 million, representing a decrease of approximately HK\$1.6 million or 19.3% from approximately HK\$8.4 million for the year ended 31 December 2021. The amount mainly represented the selling and distribution costs of semiconductors business and such decrease was primarily attributable to the decrease in commission expenses to third-party agent, which was in line with the decrease of the Group's sales to customers of semiconductors referred by its third-party agent.

# Management Discussion and Analysis

## Administrative Expenses

Administrative expenses mainly included auditor's remuneration, staff costs, Directors' remuneration, legal and professional fees, depreciation, research and development expenditure, insurance expenses, office expenses, rental expenses, travelling expenses, entertainment expenses and other miscellaneous operating expenses.

The Group's administrative expenses for the Period was approximately HK\$63.8 million, decreased by approximately HK\$17.0 million or 21.1%, as compared to that of approximately HK\$80.8 million for the year ended 31 December 2021.

The decrease was primarily attributable to, among others, (i) the decrease of staff costs for approximately HK\$11.1 million, along with the reduction of workforce of the Group for the Period; (ii) the decrease of legal and professional fee for approximately HK\$2.7 million; (iii) the decrease of insurance expenses for approximately HK\$0.5 million; (iv) the write-off of intangible assets of approximately HK\$1.1 million for the year ended 31 December 2021 while there was no such expenses for the Period; and (v) the loss on disposal of non-current assets classified as held for sale of approximately HK\$0.8 million for the year ended 31 December 2021 while there was no such expenses for the Period.

## Impairment loss on trade receivables, contract assets and amounts due from related companies (trade-nature) for the years ended 31 December 2022 and 2021

In accordance with the HKFRS 9 requirements, the management performed the impairment assessment and measured the expected credit loss ("ECL") on trade receivables, contract assets and amounts due from related companies (trade-nature) based on the simplified approach as at 31 December 2022 and 2021. Consistent with the previous financial year, the loss allowance for ECL on trade receivables, contract assets and amounts due from related companies (trade-nature) are estimated by using a provision matrix to measure the ECL and with reference to a valuation on ECL performed by an independent qualified professional valuer, Valtech Valuation Advisory Limited ("Valtech"). Valtech has appropriate qualifications and has recent experience on the assessment on ECL of similar financial instruments.

For more details of the accounting policy and the key assumptions and inputs, please refer to the note 3 and note 4 to the consolidated financial statements of this report respectively.

In assessing the loss allowance for ECL, the management has taken into consideration the period that the amounts were past due, the repayment history, the profile of debtors, the communication with the debtors about their financial conditions, the general economic conditions of the industry in which the debtors operate, as well as the results of any collection efforts.

During the Period, the Group has recorded the impairment loss on trade receivables, contract assets and amounts due from related companies (trade-nature) in aggregate of approximately HK\$10.7 million (2021: HK\$9.3 million), which consisted of impairment loss on trade receivables of approximately HK\$9.6 million (2021: HK\$6.0 million), impairment loss on contract assets of approximately HK\$0.1 million (2021: HK\$0.4 million) and impairment loss on amounts due from related companies (trade-nature) of approximately HK\$1.0 million (2021: HK\$2.9 million).

## Management Discussion and Analysis

The difficulty of debt collection in relation to the impairment loss for the current and last year is mainly attributable to the continuous adverse effect on the liquidity of some customers of broadband infrastructure and smart domain segment, which are the property developers in the PRC, caused by the more stringent deleveraging policy in real estate industry implemented by the PRC government since the second half of 2021.

For more details of the allowance for impairment, please refer to the note 21, note 22 and note 29 to the consolidated financial statements of this report.

In view of the above, the management has conducted debt collection procedure to minimise the credit risk, which includes (i) closely monitoring the progress of repayment by following up on the overdue debts by way of telephone calls and other electronic means; (ii) staying in touch with the customers on a more frequent basis; (iii) sending collection statement to the customers to remind them of the outstanding balances status; (iv) delegating a team to determine credit limit and credit approval; and (v) discussing with legal advisor about the appropriateness of taking further legal actions.

Based on the above, the Directors are of the view that the amount of the impairment loss was fair and reasonable.

### **Impairment loss on plant and equipment for the years ended 31 December 2022 and 2021**

Given the adverse impact on the performance of the Group's manufacturing business of semiconductors as a result of weak demand on consumer electronic products and in accordance with the HKAS 36 requirements, the management performed impairment assessment for the relevant segment. The recoverable amount of the relevant assets is determined by value-in-use calculation using discounted cashflow projection, based on the financial forecasts prepared by the management and with reference to a valuation performed by Valtech, the independent qualified professional valuer. Valtech has appropriate qualifications and has recent experience in the valuation of similar assets in the relevant industries.

As a result of the impairment assessment, provision for impairment loss of approximately HK\$22.5 million (2021: HK\$15.0 million) has been made on the plant and equipment during the Period. The non-cash provision for impairment loss will reduce the net carrying amount of plant and equipment, reducing the depreciation charge over the remaining useful life.

For more details of the provision for impairment loss, please refer to the note 16 to the consolidated financial statements of this report.

### **Income Tax Credit (Expense)**

The Group's income tax credit for the Period was approximately HK\$4.1 million, as compared to income tax expenses of approximately HK\$0.4 million for the year ended 31 December 2021. Such movement of income tax was primarily attributable to the deferred tax impact arising from the impairment loss on plant and equipment, trade receivables, contract assets and amounts due from related companies (trade-nature).

# Management Discussion and Analysis

## Loss for the Period

As a result of the foregoing, the Group's net loss for the Period was approximately HK\$57.6 million, when compared to the net loss of approximately HK\$51.6 million for the year ended 31 December 2021.

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the Period, the operations of the Group were primarily funded by internally generated cash flows.

The Group's outstanding capital commitments as at 31 December 2022 amounted to approximately HK\$7.1 million (2021: HK\$6.2 million). Such commitments primarily related to the broadband infrastructure construction and purchase of equipment and machinery to meet the demand of the market and quality control improvements in the production plant. Such outstanding commitments are expected to be funded by the Group's internally generated funds.

As at 31 December 2022, the Group had outstanding bank borrowing of approximately HK\$7.3 million (2021: Nil), which comprised an unsecured fixed rate RMB loan for a term of one year.

Please refer to note 26 to the consolidated financial statements in this report for the ageing analysis in respect of the trade payables of the Group as at 31 December 2022 and 2021.

The Group's gearing ratio as at 31 December 2022, which was calculated by dividing its total bank borrowings by its total equity, was 7.2%, while the gearing ratio as at 31 December 2021 was nil due to the absence of bank borrowings as at 31 December 2021.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise the cost of funds, the Group's treasury activities are centralised with all bank deposits denominated either in HK\$, US\$ or RMB. The Group's liquidity and financing requirements are reviewed regularly. The Group will continue to maintain a prudent capital structure when considering financing for new investments.

## CHARGES ON GROUP ASSETS

As at 31 December 2022, the Group did not have any asset pledged (2021: Nil).

## SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the paragraphs headed "Cryptocurrencies" and "Listed equity securities" in this Management Discussion and Analysis, the Group did not make any significant investments or material acquisitions and disposals of subsidiaries during the Period.

## CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any significant contingent liabilities (2021: Nil).

## Management Discussion and Analysis

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group is exposed to foreign currency risks as several of its subsidiaries have foreign currency sales and purchases. For the years ended 31 December 2022 and 2021, approximately 30% and 36%, respectively, of the Group's sales were denominated in currencies other than the functional currency of the relevant group entities making the sale, and approximately 6% and 4%, respectively, of purchases were not denominated in the relevant group entities' functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2022 and 2021 are as follows:

	Assets		Liabilities	
	As at 31 December		As at 31 December	
	2022	2021	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States dollars	<b>86,924</b>	29,498	<b>4,218</b>	2,668
Renminbi	<b>57</b>	96	–	–
	<b>86,981</b>	29,594	<b>4,218</b>	2,668

The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

# Management Discussion and Analysis

## HUMAN RESOURCES

As at 31 December 2022, the Group had a workforce of 339 full-time employees (including the Directors but excluding the independent non-executive Directors) of whom approximately 97.1% were employed in the PRC and approximately 2.9% in Hong Kong. The Group's staff costs (including Directors' emoluments) for the years ended 31 December 2022 and 2021 amounted to approximately HK\$46.1 million and HK\$66.5 million, respectively. The Group's employees in Hong Kong are required to participate in the Mandatory Provident Fund scheme under which it is required to contribute a fixed percentage of the employees' payroll costs (up to a maximum of HK\$1,500 per month) to the scheme. For the Group's employees in the PRC, the Group makes contributions to various government sponsored employee benefit funds, including housing provident fund, basic pension insurance fund, basic medical insurance, unemployment insurance, maternity insurance and work related injury insurance funds in accordance with applicable PRC laws and regulations.

The Group generally recruits employees from the open market. It actively pursues a strategy to recruit, develop and retain talented employees by (i) providing them with training programs on a regular basis to keep them abreast of their knowledge in the products it distributes, technology development and market conditions of the electronics industry, broadband infrastructure industry and smart domain industry; (ii) aligning employees' compensation and incentives with their performance; and (iii) providing them with a clear career path with opportunities for additional responsibilities and promotions.

## ENVIRONMENTAL MATTERS

While the Group is subject to the PRC environmental laws and regulations including the Environment Protection Law of the PRC, which govern a broad range of environmental matters, including air pollution, noise emissions, discharge of waste water and waste residues, the Directors believe that the Group's production process does not generate environmental hazards which would pose a significant adverse effect on the environment and that the environmental protection measures undertaken by the Group are adequate to comply with all applicable current local and national PRC regulations.

During the Period and to the best of the Directors' knowledge, the Group did not receive any complaints from its customers or any other parties in respect of any environmental protection issues, and did not experience any material environmental incidents arising from its manufacturing activities. During the Period, no administrative sanctions or penalties were imposed on the Group for the violation of environmental laws or regulations which had a material adverse impact on its operations.

Please also refer to the Environmental, Social and Governance Report in this report.

## DIVIDENDS

The Board does not recommend the payment of a final dividend for the Period (2021: Nil).

## Management Discussion and Analysis

### BUSINESS PROSPECT

In the coming year, the global economic environment is expected to be complex and the prospect of the Group's semiconductors business will be full of challenges. The ongoing trade tension between China and the United States and the geopolitical complications around the world continue to affect the global semiconductor supply chain and the semiconductor market. The increasing concern on inflation and the rise of interest rate will put further downward pressure on the consumer market. The replacement cycle for the consumer electronic products like smartphone and personal computer is generally extended. There is still no clue as to when the consumer market will gain the momentum of growth. These in turn affect the Group's customers of semiconductors to take a conservative approach for the plan of new order placing.

Although the accelerated innovation and development of 5G technology and related emerging applications bring new business opportunities to the semiconductor industry, the Group also faces the challenges of higher technical standard from customers and more competitive market regionally and globally. Nevertheless, the Group intends to continue its research and development to strengthen its production process and quality control and will closely monitor the changes in the macro environment and make timely strategic development to seize market opportunities. Furthermore, the Group will also from time to time monitor the performance of the machineries so as to ensure customers' requirement on technical standard is met.

On the other hand, under China's "14th Five-Year Plan", innovation and technology development have been elevated to core national priorities and strategic supporting pillar to its economic development. It is foreseeable that 5G networks, artificial intelligence, internet of things, cloud computing and big data processing will be benefited continuously from the PRC government's dedicated support in its development. We believe that the wide range of technological innovation will drive the emerging applications in the smart living sector, which will also be benefited from a steady and healthy PRC real estate market after the changes brought by the deleveraging policy. In view of this, the Group will capitalise on the fast-growing demand of technological application in the smart living sector.

Looking forward, Guangzhou Weaving is dedicated to be a smart domain solution integrator. The Group will keep searching for acquisition targets, primarily focusing on areas of smart living related technology and electronic parts for artificial intelligence and internet of things, which could have potential business synergy with Guangzhou Weaving and semiconductor business. The Group will also seek for other acquisition targets, including growing companies with high potential and leading technologies. On the other hand, the Group will also keep observing market and industry development trends, grasp investment opportunities brought by technological innovation, and actively plan and consider to diversify the investments in the field of innovative technologies and Web 3.0 as and when appropriate, in order to facilitate the technological development and create greater value for the Shareholders.

## Biographical Details of Directors and Senior Management

### EXECUTIVE DIRECTORS

#### Mr. Zhang Liang Johnson

Mr. Zhang Liang Johnson (“**Mr. Zhang**”), aged 41, is the Chairman of the Company and has been appointed as an executive Director with effect from 19 May 2018. He is the sole shareholder of Yoho Bravo Limited, the controlling shareholder of the Company. Mr. Zhang has over 17 years of experience in the PRC real estate industry. He is an entrepreneur in various industries, including real estate, energy and entertainment etc. He served as an executive director from March 2012 to May 2022 and remains as the controlling shareholder of Kinetic Development Group Limited (stock code: 1277), the issued shares of which are listed on the Main Board of the Stock Exchange. He is also the controlling shareholder, the chairman and an executive director of Transmit Entertainment Limited (stock code: 1326), the issued shares of which are listed on the Main Board of the Stock Exchange. Mr. Zhang has established Seedland Real Estate Group Co., Ltd. (formerly known as Guangzhou Seedland Real Estate Development Co., Ltd.) in the PRC in January 2006 which, through its subsidiaries, principally engaged in real estate business. Mr. Zhang has also made other financial investments in the technology and finance sectors such as internet financing services, virtual reality applications and artificial intelligence. Mr. Zhang was awarded as one of the most popular investors at the 2018 Global Youth Innovation Conference (2018 GYIC全球青年創新大會) held on 18 October 2018.

#### Ms. Wan Duo

Ms. Wan Duo (“**Ms. Wan**”), aged 34, has been appointed as an executive Director with effect from 19 May 2018. She holds a master’s degree in education from Harvard University and a bachelor’s degree in literature from Renmin University of China. She is experienced in corporate finance, mergers and acquisitions, investment management and corporate governance, with a focus on financial and technology investments and management, gained from financial and insurance institutions in Singapore and China. Ms. Wan is currently working in the Seedland group of China and is responsible for its strategic investments.

## Biographical Details of Directors and Senior Management

### INDEPENDENT NON-EXECUTIVE DIRECTORS

#### Mr. Xu Liang

Mr. Xu Liang (“**Mr. Xu**”), aged 47, has been appointed as an independent non-executive Director with effect from 9 June 2018. He holds a bachelor’s degree in Arts and a bachelor’s degree in Economics from Tsinghua University and a master’s degree in business administration from Harvard University. He has experience in financial management of listed companies, including China Digital TV Holding Co., Ltd., which was a New York Stock Exchange-listed company (then stock code: NYSE:STV) and Bona Film Group, which was a Nasdaq-listed company (then stock code: Nasdaq: BONA). From March 2015 to July 2021, he was an independent director of Thunder Software Technology Co., Ltd., the A shares of which are listed and traded on the Shenzhen Stock Exchange (stock code: 300496.SZ). He is currently the chairman of House2Home Culture & Technology (Tianjin) Co., Ltd. (房到家).

#### Mr. Chen Johnson Xi

Mr. Chen Johnson Xi (“**Mr. Chen**”), aged 40, has been appointed as an independent non-executive Director with effect from 9 June 2018. He is a seasoned investor and entrepreneur having worked on numerous venture capital, private equity, IPOs and M&A transactions globally. He is currently the chief executive officer of an Asian based investment and technology company with businesses in financial services/fintech, telecommunications, media, technology (TMT), biotechnology and high technology. Mr. Chen is the chairman for Australia Biotechnology Corporation and vice chairman for Financial Industry Policy of the South China American Chamber of Commerce Institute for International Economic Strategy. Mr. Chen has held senior leadership roles at PwC Strategy& (Formerly Booz & Company), KPMG M&A Advisory and Accenture. He holds a Bachelor’s degree in Information Systems and Post Graduate Certificate of Applied Commerce from The University of Melbourne.

#### Ms. Zhang Yibo

Ms. Zhang Yibo (“**Ms. Zhang**”), aged 41, has been appointed as an independent non-executive Director with effect from 9 June 2018. She graduated with a bachelor’s degree in economics from Nankai University in 2003 and a master’s degree in business administration from The Hong Kong University of Science and Technology. She has experience in asset management, management of listed companies and their investment in Hong Kong and China. From October 2012 to February 2013, she was a director of Bingo Group Holdings Limited (stock code: 8220.HK) which is principally engaged in (among other things) movie production, licensing, crossover marketing and provision of interactive contents. Ms. Zhang is currently the chief operation officer and a responsible officer of Alphawise Asset Management Limited and a licensed officer under the SFO, registered to conduct Type 9 (asset management) regulated activity under the SFO.

# Biographical Details of Directors and Senior Management

## SENIOR MANAGEMENT

### Mr. Li Qiang

Mr. Li Qiang (“**Mr. Li**”), aged 41, is the chief executive officer of Guangzhou Weaving Communications Telecommunications Technology Limited\* (廣州織網通訊科技有限公司). Mr. Li joined the Group in February 2022. Mr. Li has over 18 years of experience in relation to product R&D and operation management in telecom software development, fixed/mobile network communication and smart city fields. Mr. Li graduated from Xidian University in July 2004 with a bachelor’s degree in computer science and technologies. From 2004 to 2018, he served as (by timeline) telecom software development engineer, telecom software system architect, smart city solution senior architect in Huawei Technologies Co., Ltd., which is the world’s leading provider of ICT (Information and Communications Technology) infrastructure and intelligent terminals, and was responsible for R&D, solution planning and sales in telecom software and smart city services. From 2018 to 2021, he served as the vice general manager of the smart city center of Seedland group, which is a leading real estate developer in the PRC, characterized by its leading smart living space strategy and solutions, and was responsible for the planning and realization of Seedland’s smart living space strategy, solutions, and products.

### Mr. Chan Chun Sing

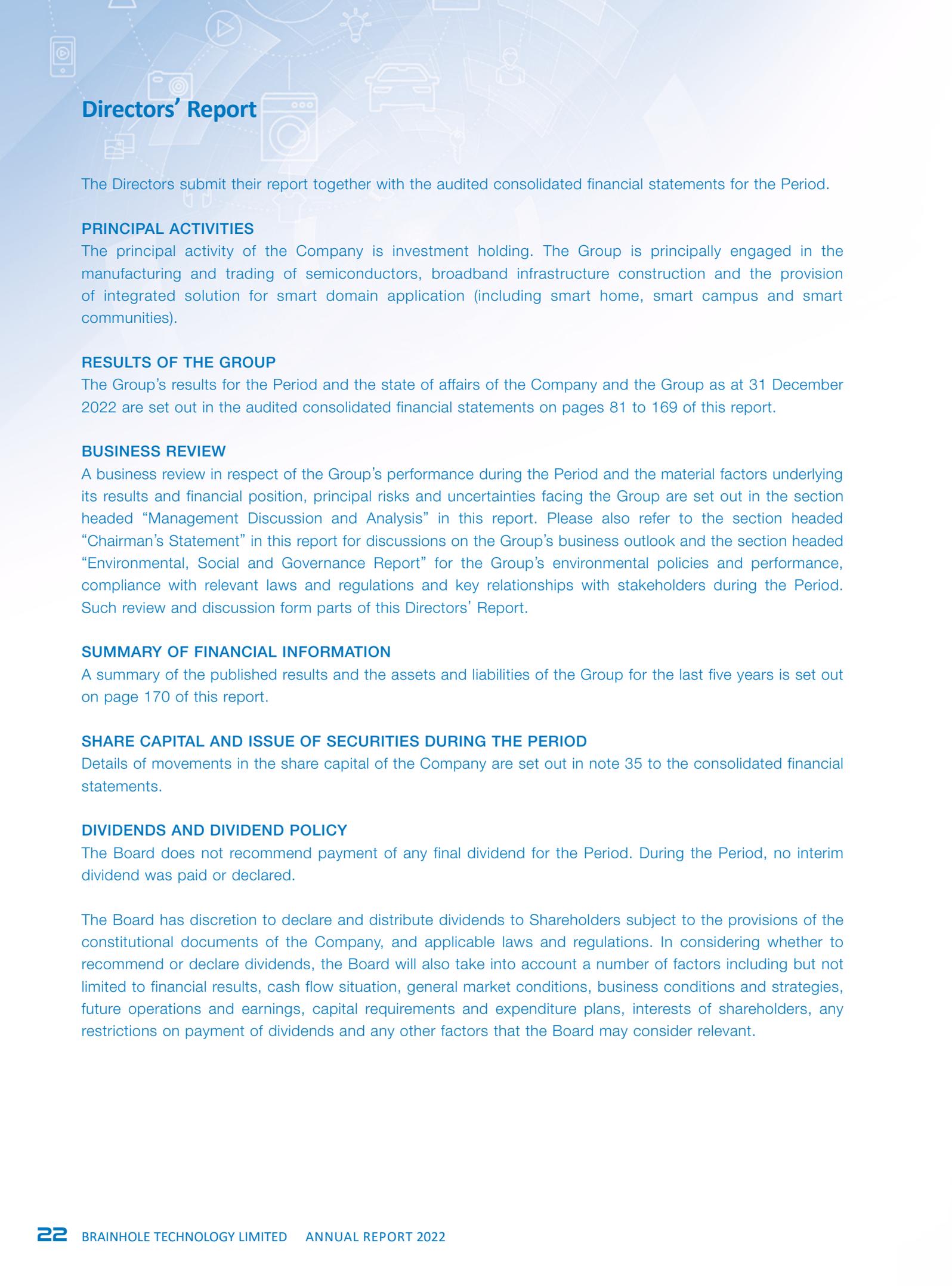
Mr. Chan Chun Sing (“**Mr. Chan**”), aged 39, joined the Group in October 2019 as our financial controller. Mr. Chan is primarily responsible for the Group’s overall financial strategies, and daily management of the Group’s financial and accounting function. Mr. Chan has over 17 years of experience in accounting, auditing and financial management. Prior to joining the Group, Mr. Chan worked in an international accounting firm from September 2005 to September 2010. From September 2010 to March 2015, he served as accounting manager of China Lumena New Materials Corp. (stock code: 67). From May 2015 to January 2016, he served as the vice director of finance department of Hong Kong Huafa Investment Holdings Limited, a subsidiary of a state-owned enterprise in Zhuhai. From February 2016 to September 2019, he was the executive director, chief financial officer and company secretary of Grand Brilliance Group Holdings Limited (stock code: 8372), and was responsible for overseeing the group’s accounting, financial and company secretarial functions.

Mr. Chan graduated from the University of Hong Kong in 2005 with a bachelor’s degree in Business Administration majoring in Accounting and Finance. He is a member of the Hong Kong Institute of Certified Public Accountants and The Hong Kong Chartered Governance Institute.

## COMPANY SECRETARY

### Mr. Kwong Lun Kei Victor

Mr. Kwong Lun Kei Victor (“**Mr. Kwong**”), aged 41, is a practising solicitor and was admitted as a solicitor in Hong Kong in 2010. He obtained his Bachelor of Laws and Bachelor of Commerce from University of New South Wales, Australia in 2007. He has over ten (10) years of experience in corporate finance and primarily advises on listings of companies on the Stock Exchange, mergers and acquisitions, regulatory compliance and other commercial law matters. Mr. Kwong is also the company secretary of Zhong Ao Home Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1538) since 1 January 2022, one of the joint company secretaries of Sterling Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1825) since 1 February 2022 and the company secretary of Hong Wei (Asia) Holdings Company Limited, a company listed on GEM (stock code: 8191) since 30 September 2022.



## Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the Period.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities).

### RESULTS OF THE GROUP

The Group's results for the Period and the state of affairs of the Company and the Group as at 31 December 2022 are set out in the audited consolidated financial statements on pages 81 to 169 of this report.

### BUSINESS REVIEW

A business review in respect of the Group's performance during the Period and the material factors underlying its results and financial position, principal risks and uncertainties facing the Group are set out in the section headed "Management Discussion and Analysis" in this report. Please also refer to the section headed "Chairman's Statement" in this report for discussions on the Group's business outlook and the section headed "Environmental, Social and Governance Report" for the Group's environmental policies and performance, compliance with relevant laws and regulations and key relationships with stakeholders during the Period. Such review and discussion form parts of this Directors' Report.

### SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the last five years is set out on page 170 of this report.

### SHARE CAPITAL AND ISSUE OF SECURITIES DURING THE PERIOD

Details of movements in the share capital of the Company are set out in note 35 to the consolidated financial statements.

### DIVIDENDS AND DIVIDEND POLICY

The Board does not recommend payment of any final dividend for the Period. During the Period, no interim dividend was paid or declared.

The Board has discretion to declare and distribute dividends to Shareholders subject to the provisions of the constitutional documents of the Company, and applicable laws and regulations. In considering whether to recommend or declare dividends, the Board will also take into account a number of factors including but not limited to financial results, cash flow situation, general market conditions, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

### RESERVES

As at 31 December 2022, the total reserves available for distribution, taking into account accumulated losses, to Shareholders by the Company amounted to approximately HK\$3.5 million (2021: HK\$29.8 million). Details of movements in the reserves of the Company during the Period are set out in the Consolidated Statement of Changes in Equity and note 36 to the consolidated financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the Period are set out in note 16 to the consolidated financial statements. The Group did not have any investment property as at 31 December 2022.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles and there is no restriction against such rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

### SHARE OPTION SCHEME

The Company adopted a share option scheme on 23 September 2015 whose terms are consistent with the provisions under Chapter 17 of the Listing Rules (the "Scheme").

The Scheme is valid and effective for a period of 10 years from 9 October 2015 and its purpose is to reward eligible participants who have contributed or will contribute to the Group and to encourage eligible participants to work towards enhancing the value of the Company and its Shares for the benefits of the Company and its Shareholders as a whole, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group.

Eligible participants of the Scheme include (i) any Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of the Group; and (ii) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group, whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group.



## Directors' Report

### SHARE OPTION SCHEME *(Continued)*

The total number of Shares available for issue under the Scheme is 80,000,000 Shares, representing 10% of the total number of Shares in issue. The total number of Shares to be issued upon exercise of the share options granted to each eligible participant under the Scheme in any 12-month period must not exceed 1% of the total number of Shares then in issue, unless approved by Shareholders in general meeting pursuant to the requirements under the Listing Rules. The number of Shares to be issued in respect of which options may be granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates (within the meaning of the Listing Rules) representing in aggregate over 0.1% of the total number of the Shares on the date of such grant must be approved by Shareholders in general meeting.

An offer of a grant of share options under the Scheme may be accepted within five business days from the date on which the offer is made with a cash consideration of HK\$1.00 payable to the Company. The period for the exercise of a share option is determined by the Board in its sole discretion, but such period shall not be more than 10 years from the date of grant of the option.

Under the Scheme, the subscription price payable upon exercise of any options granted is determined by the Board but in any event it shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to a participant; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the option; and (iii) the nominal value of the Shares.

No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 31 December 2022.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company as at the date of this report are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

#### LIST OF DIRECTORS

The Directors during the Period and up to the date of this report are:

##### Executive Directors

Mr. Zhang Liang Johnson (*Chairman*)

Ms. Wan Duo

##### Independent Non-Executive Directors

Mr. Xu Liang

Mr. Chen Johnson Xi

Ms. Zhang Yibo

## DIRECTOR'S SERVICE CONTRACTS

There are no service contracts for any of the Directors who are nominated for re-election at the forthcoming annual general meeting of the Company to be held in 2023 which are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## INDEMNITY OF DIRECTORS

The Directors are indemnified against actions, costs, charges, losses, damages and expenses incurred in discharge of their duties subject to the provisions of the Articles and other applicable legislation. The Company has taken out Directors' and officers' liabilities insurance for such purposes for the Period.

## EMOLUMENTS OF DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of Directors and the five highest paid individuals in the Group are set out in note 15 to the consolidated financial statements.

The emoluments paid or payable to the senior management of the Group who are not Directors were within the following bands:

	2022 <i>No. of employees</i>	2021 <i>No. of employees</i>
Nil to HK\$1,000,000	2	–
HK\$1,000,001 to HK\$1,500,000	3	3
HK\$2,000,001 to HK\$2,500,000	–	1
Above HK\$2,500,000	–	1
	<b>5</b>	<b>5</b>

## EMOLUMENT POLICY

The Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of the Company. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Group or executing their functions in relation to the Group's operations. The Company reviews and determines the remuneration and compensation package of its Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of its Directors and senior management and the performance of the Company. The Directors and employees of the Group may also receive options which may be granted under the Scheme. However, no option was so granted during the Period.

## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2022, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

#### Long positions in the Shares

Name of Director	Nature of interest	Number of ordinary shares held <i>(Note 1)</i>	Approximate shareholding percentage in the issued share capital of the Company <i>(%)</i>
Mr. Zhang Liang Johnson	Interest in a controlled corporation <i>(Note 2)</i>	599,658,000 Shares (L)	74.96

#### Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at 31 December 2022, through Yoho Bravo Limited which is wholly-owned by him.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2022, the interests and short positions of substantial Shareholders and other persons (other than Directors or chief executives of the Company) in the Shares or the underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

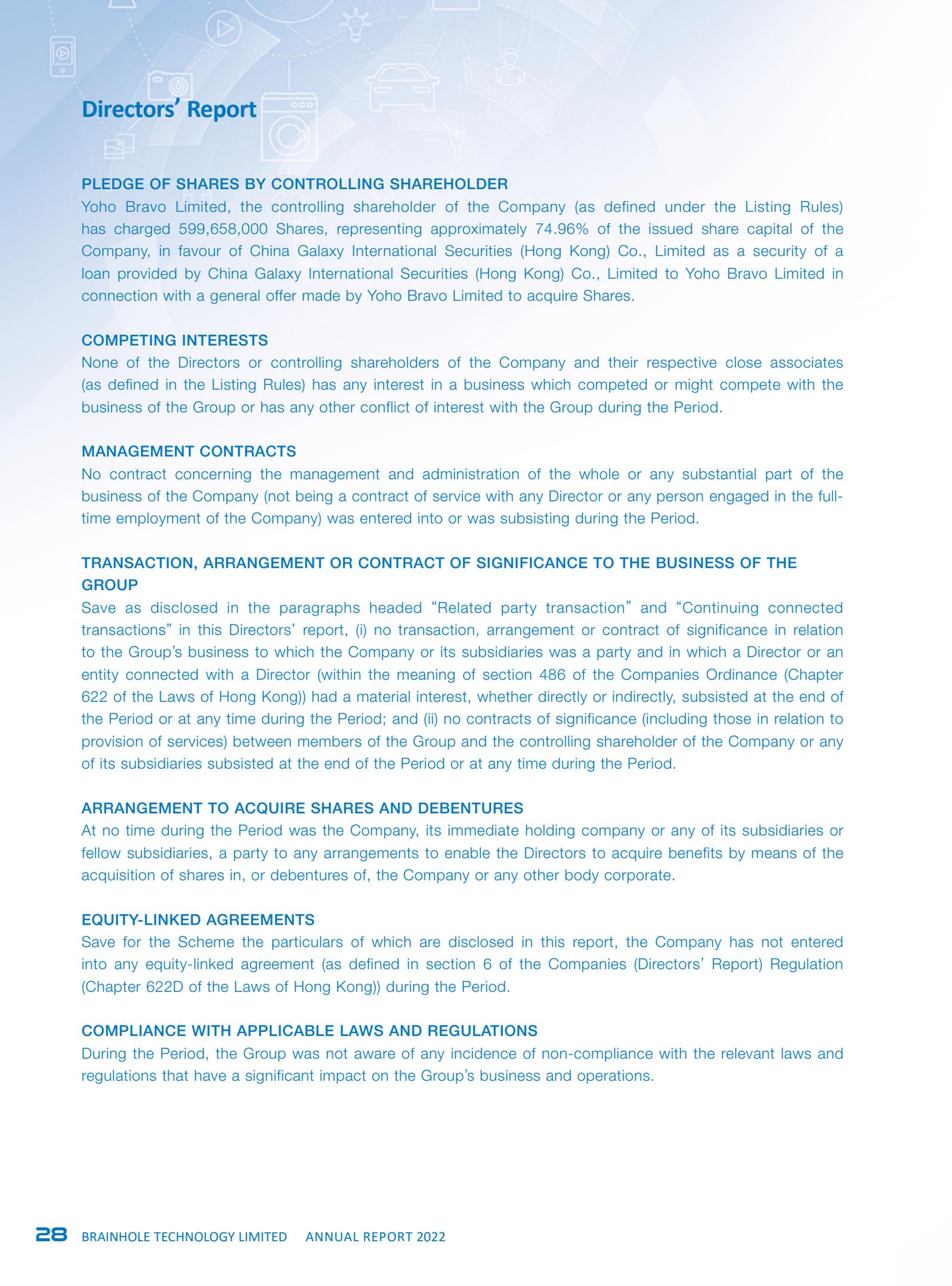
### Long positions in the Shares

Name of Shareholder	Nature of interest	Number of ordinary shares held (Note 1)	Approximate shareholding percentage in the issued share capital of the Company (%)
Yoho Bravo Limited (Note 2)	Beneficial interest	599,658,000 Shares (L)	74.96

*Notes:*

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital as at 31 December 2022, through Yoho Bravo Limited which is wholly-owned by him. China Galaxy International Securities (Hong Kong) Co., Limited and its holding companies have a security interest in the said 599,658,000 Shares as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.



## Directors' Report

### PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

Yoho Bravo Limited, the controlling shareholder of the Company (as defined under the Listing Rules) has charged 599,658,000 Shares, representing approximately 74.96% of the issued share capital of the Company, in favour of China Galaxy International Securities (Hong Kong) Co., Limited as a security of a loan provided by China Galaxy International Securities (Hong Kong) Co., Limited to Yoho Bravo Limited in connection with a general offer made by Yoho Bravo Limited to acquire Shares.

### COMPETING INTERESTS

None of the Directors or controlling shareholders of the Company and their respective close associates (as defined in the Listing Rules) has any interest in a business which competed or might compete with the business of the Group or has any other conflict of interest with the Group during the Period.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company (not being a contract of service with any Director or any person engaged in the full-time employment of the Company) was entered into or was subsisting during the Period.

### TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE TO THE BUSINESS OF THE GROUP

Save as disclosed in the paragraphs headed "Related party transaction" and "Continuing connected transactions" in this Directors' report, (i) no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director or an entity connected with a Director (within the meaning of section 486 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period; and (ii) no contracts of significance (including those in relation to provision of services) between members of the Group and the controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the Period or at any time during the Period.

### ARRANGEMENT TO ACQUIRE SHARES AND DEBENTURES

At no time during the Period was the Company, its immediate holding company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### EQUITY-LINKED AGREEMENTS

Save for the Scheme the particulars of which are disclosed in this report, the Company has not entered into any equity-linked agreement (as defined in section 6 of the Companies (Directors' Report) Regulation (Chapter 622D of the Laws of Hong Kong)) during the Period.

### COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

During the Period, the Group was not aware of any incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Group's business and operations.

## TAX RELIEF

The Company is not aware of any relief from taxation available to Shareholders by reason of their holdings of the Shares.

## RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality products and services to its customers and enhancing cooperation with its business partners.

The Group strives to provide a safe workplace to its employees. It also provides competitive remuneration and benefits, as well as training programs so that staff can keep abreast with developments in the market. Employees are also provided with clear career path with opportunities for additional responsibilities and promotions based on their merits and performance.

The Group believes that product quality is the key to maintaining a good customer relationship. To achieve this goal, the Group has a set of established quality assurance standards to meet its customers' requirements, and each shipment of finished products is checked and sub-standard products will be re-worked and retested prior to delivery to customers.

The Group is also dedicated to maintaining good relationship with suppliers as long-term business partners to ensure stability of the Group's business.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers collectively accounted for approximately 59.0% (2021: 39.9%) of its total revenue for the Period and its largest customer accounted for approximately 24.2% (2021: 11.7%) of its total revenue for the Period.

The Group's five largest suppliers collectively accounted for approximately 62.8% (2021: 51.7%) of its total purchases for the Period and its largest supplier accounted for approximately 29.4% (2021: 20.3%) of its total purchases for the Period.

None of the Directors and their respective close associates (within the meaning of the Listing Rules) or any holder of Shares who, to the knowledge of the Directors, owns more than 5% of the issued Shares has any interest in any of the five largest customers or five largest suppliers of the Group during the Period.

## RELATED PARTY TRANSACTION

Significant related party transactions entered into by the Group during the Period are set out in note 41 to the consolidated financial statements.

Other than provision of broadband infrastructure construction services to Seedland under the New Construction Services Framework Agreement (as renewal for a term of three years ended 31 December 2024), which constituted a continuing connected transaction, the Directors consider that these significant related party transactions disclosed in note 41 to the consolidated financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules or are fully exempt from the requirements to comply with any of the reporting, announcement or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## Directors' Report

### CONTINUING CONNECTED TRANSACTIONS

During the Period, the Group had entered into the following continuing connected transactions:

On 13 June 2019, Guangzhou Weaving entered into the construction services framework agreement (the “**Construction Services Framework Agreement**”) with Seedland Real Estate Group Co., Ltd. (“Seedland”, formerly known as Guangzhou Seedland Real Estate Development Co., Ltd.) for a term up to 31 December 2021. As the forgoing Construction Services Framework Agreement would expire on 31 December 2021, Guangzhou Weaving entered into a renewed framework agreement with Seedland on 6 December 2021 (“**New Construction Services Framework Agreement**”), for a term of three years ending 31 December 2024, pursuant to which Guangzhou Weaving Group Companies shall provide Seedland Group Companies with certain communication construction and smart domain solution services, including but not limited to broadband infrastructure construction services for residential properties and projects and integrated solutions for smart community projects (including hardware for security and identification purposes, software for residential management and community services) and Guangzhou Weaving Group Companies shall receive construction service fees in return. The maximum aggregate service fee receivable from Seedland Group Companies under the New Construction Services Framework Agreement for each of the years ending 31 December 2022, 2023 and 2024 are RMB8.0 million (equivalent to approximately HK\$9.8 million) throughout the term thereof.

Mr. Zhang Liang Johnson, the chairman of the Board and an executive Director, is interested in the entire issued share capital of Seedland and Seedland is a connected person of the Company under Chapter 14A of the Listing Rules. Given that Guangzhou Weaving is an indirect wholly-owned subsidiary of the Company, the New Construction Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios in respect of the transactions contemplated under the New Construction Services Framework Agreement are less than 25% and the annual cap is less than HK\$10 million, the transactions contemplated under the New Construction Services Framework Agreement constitute de minimis transactions under Rule 14A.76 of the Listing Rules, and therefore are subject to reporting, annual review and announcement requirements, which have been complied with, but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the Company's announcement dated 6 December 2021 for details.

During the Period, the aggregate construction service fees received by Guangzhou Weaving from Seedland pursuant to the New Construction Services Framework Agreement amounted to approximately HK\$8.1 million (2021: HK\$12.4 million) and is within the annual cap.

The independent non-executive Directors have reviewed the continuing connected transactions as set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) on terms that are fair and reasonable and in the interests of the Shareholders as a whole according to the New Construction Services Framework Agreement.

## **CONTINUING CONNECTED TRANSACTIONS** *(Continued)*

SHINEWING (HK) CPA Limited, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In the opinion of the Directors, sufficient access was given to SHINEWING (HK) CPA Limited to the records of the Group for the purpose of reporting on the continuing connected transactions. SHINEWING (HK) CPA Limited has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## **ANNUAL CONFIRMATION OF INDEPENDENCE**

The Company has received from each independent non-executive Director the annual confirmation of his/her independence, and the Company considers them to be independent in light of the guidelines set out in Rule 3.13 of the Listing Rules.

## **PUBLIC FLOAT**

Based on 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 a sufficient public float of not less than 25% of the issued Shares as required under the Listing Rules.

## **CHARITABLE DONATIONS**

The Group made charitable donations of HK\$78,000 (2021: HK\$30,000) in total during the Period.

## **EVENTS AFTER THE REPORTING PERIOD**

Subsequent to 31 December 2022, the Group had acquired and disposed of certain listed equity securities. Details of which are set out in the Company's announcement dated 3 January 2023, 11 January 2023, 13 January 2023, 16 January 2023, 19 January 2023, 26 January 2023, 15 February 2023, 16 February 2023, 20 February 2023 and 30 March 2023 respectively.

In addition, the Group had disposed of the digital assets held as of 31 December 2022 on 11 February 2023. Details of such disposal are set out in the Company's announcement dated 13 February 2023.

## **AUDITOR**

The consolidated financial statements of the Group for the year ended 31 December 2022 have been audited by SHINEWING (HK) CPA Limited and have been reviewed by the audit committee of the Company.

A resolution for the re-appointment of SHINEWING (HK) CPA Limited as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board of  
Brainhole Technology Limited

**Zhang Liang Johnson**

*Chairman*

Hong Kong, 31 March 2023

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continued growth of the Group and for safeguarding and maximising Shareholders' interests.

The Company has complied with the code provisions set out in the CG Code, except for C.5.1 and F.2.2, during the Period.

Pursuant to C.5.1 of the CG Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. Although only 2 regular Board meetings were held during the year ended 31 December 2022, the Board considered that sufficient meetings had been held as business operations were under the management and the supervision of the executive Directors. In addition, senior management of the Group provided to the Directors the information in respect of the Group's business development and activities from time to time and the significant matters had been either duly reported, discussed and resolved at the 2 Board meetings or dealt with by the Board by way of written resolutions for expeditious commercial decisions making purposes.

F.2.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. However, due to other business engagements, Mr. Zhang Liang Johnson, the chairman of the Board, was unable to attend the annual general meeting held on 10 June 2022. Ms. Wan Duo, an executive Director, was invited to take the chair and answer questions from Shareholders at the annual general meeting.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code on terms no less exacting than the required standard of dealings set out in Appendix 10 of the Listing Rules.

Upon specific enquiry made with all the Directors, the Company was not aware of any non-compliance with the Model Code during the Period regarding securities transactions by Directors.

## BOARD OF DIRECTORS

### Board Composition and Responsibilities

The Board composition of the Company during the Period are set out as follows:-

#### Executive Directors

Mr. Zhang Liang Johnson (*Chairman*)

Ms. Wan Duo

#### Independent Non-Executive Directors

Mr. Xu Liang

Mr. Chen Johnson Xi

Ms. Zhang Yibo

Details of background and qualifications of all existing Directors as at the date of this report are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

## **BOARD OF DIRECTORS** *(Continued)*

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. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's business to the executive Directors and senior management of the Group.

Mr. Zhang Liang Johnson was designated as the chairman of the Board with effect from 11 January 2019. He was responsible for leading the Board in establishing and monitoring implementation of business strategies.

Significant matters of the Group are required to be approved by the Board, including:

- (i) formulating corporate development planning;
- (ii) formulating the Company's operational and management strategies;
- (iii) approving financial statements;
- (iv) approving notifiable transactions and connected transactions undertaken by any member of the Group as may be required under the Listing Rules;
- (v) approving the risk management and internal control systems of the Group; and
- (vi) distribution of any dividend.

## **Appointment and Re-election of Directors**

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year. Each appointment is renewable automatically for successive term of one year each commencing after the expiry of the then current term and is terminable by either party by three months' prior notice. Each of the executive Directors entered into a service contract with the Company for a specific term which is terminable by either party by three months prior notice. None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract/letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. We have also taken out Directors' and officers' liabilities insurance for such purposes for the Period.

The Articles have specified that any Director appointed during the year to fill a casual vacancy are subject to re-election by Shareholders at the first general meeting after appointments and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Each Director shall be subject to retirement by rotation at least once every three years pursuant to the Articles.

# Corporate Governance Report

## BOARD OF DIRECTORS *(Continued)*

### Directors' Training

During the Period, the Directors received from the Company from time to time the updates on laws, rules and regulations which may be relevant to their roles, duties and functions as directors of a listed company. All Directors have been updated with the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefings and professional development to the Directors will be arranged whenever necessary. Particulars of participation by the Directors are set out as follows:

	Attending training course(s)/reading materials
<b>Executive Directors</b>	
Mr. Zhang Liang Johnson	✓
Ms. Wan Duo	✓
<b>Independent Non-executive Directors</b>	
Mr. Xu Liang	✓
Mr. Chen Johnson Xi	✓
Ms. Zhang Yibo	✓

## BOARD COMMITTEES

In order to assist the Board in discharging its duties in a more efficient manner, the Board has established, with written terms of reference, three Board committees, namely audit committee, nomination committee and remuneration committee, to oversee particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference for each Board committee are in compliance with the Listing Rules and they are posted on the websites of the Stock Exchange and the Company.

### Audit Committee

The Company established an audit committee on 23 September 2015 in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with Rule 3.22 of the Listing Rules and code provision D.3.3 of the CG Code have been adopted. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, monitor the integrity of the financial statements, annual reports and interim reports, review significant financial reporting judgements contained in them, and oversee financial reporting system, risk management and internal control systems of the Group. As of 31 December 2022, the audit committee of the Company consists of three members, namely Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Zhang Yibo, all being independent non-executive Directors. Mr. Xu Liang, who has appropriate professional qualifications and experience in accounting matters, is the chairperson of the audit committee.

## **BOARD COMMITTEES** *(Continued)*

### **Audit Committee** *(Continued)*

The audit committee held 2 meetings during the Period. The key work done by the committee during the Period included:–

- reviewing the annual and interim results of the Group and recommending the same to the Board for approval; and
- reviewing and assessing the adequacy and effectiveness of the risk management and internal control systems of the Group.

There was no disagreement between the Board and the audit committee regarding the appointment of external auditor.

### **Nomination Committee**

The Company established a nomination committee on 23 September 2015 in compliance with Rule 3.27A of the Listing Rules. Written terms of reference in compliance with code provision B.3.1 of the CG Code have been adopted. The primary duties of the nomination committee are to review the structure, size, composition and diversity of the Board and make recommendations to the Board on the selection of individuals nominated for directorships, appointment or re-appointment of Directors and succession planning for Directors. As of 31 December 2022, the nomination committee of the Company consists of four members, namely Ms. Zhang Yibo, Mr. Xu Liang, Mr. Chen Johnson Xi and Ms. Wan Duo, being three independent non-executive Directors and an executive Director. Ms. Zhang Yibo is the chairperson of the nomination committee.

During the Period, the nomination committee held 1 meeting. The key work done by the committee during the Period included:

- reviewing and confirming the independence of the Company's independent non-executive Directors; and
- reviewing the structure and composition of the Board, as well as policy of nomination of Directors in light of, among other things, the diversity criteria set out in the Company's Board diversity policy.

### **Remuneration Committee**

The Company established a remuneration committee on 23 September 2015 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with Rule 3.26 of the Listing Rules and code provision E.1.2 of the CG Code have been adopted. The primary duties of the remuneration committee are mainly to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review remuneration proposals of the management with reference to the Board's corporate goals and objectives, assess the performance of executive Directors, and ensure that none of the Directors or any of his/her associates is involved in deciding his/her own remuneration. As of 31 December 2022, the remuneration committee of the Company consists of four members, namely Mr. Chen Johnson Xi, Mr. Xu Liang, Ms. Zhang Yibo and Ms. Wan Duo, being three independent non-executive Directors and an executive Director. Mr. Chen Johnson Xi is the chairperson of the remuneration committee.

## Corporate Governance Report

### BOARD COMMITTEES *(Continued)*

#### Remuneration Committee *(Continued)*

The remuneration committee is authorised by the Board to determine, subject to approval by the Board, the remuneration payable to executive Directors and members of senior management, the emolument policies and the basis for determining such emoluments. No Director or any of his/her associates was involved in deciding his/her own remuneration.

During the Period, the remuneration committee held 1 meeting. The key work done by the committee during the Period included:

- reviewing the policy for the remuneration and assessing performance of executive Directors; and
- reviewing the remuneration payable to executive Directors.

#### Corporate Governance Functions

The Board is responsible for performing the corporate governance duties set out in code provision A.2.1 of the CG Code, namely:

- (i) to develop and review the Company's policies and practices on corporate governance;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (iv) to develop, review and monitor the code of conduct and compliance manual (including in relation to securities trading) applicable to employees and Directors; and
- (v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report in the Company's annual report.

The Board held 2 meetings during the Period, at which the Board reviewed the Company's policies and practice on corporate governance and legal and regulatory compliance, training and continuous professional development participations of the Directors, as well as the Company's compliance with the CG Code.

# Corporate Governance Report

## BOARD MEETINGS AND ATTENDANCE RECORD OF DIRECTORS

Code provision C.5.1 of the CG Code states that at least four regular board meetings should be held each year at approximately quarterly intervals with active participation of a majority of directors, either in person or through other electronic means of communication.

During the Period, the Board held 2 meetings, and 1 Shareholders' meeting was held (being the annual general meeting of the Company held on 10 June 2022). The Directors' attendance records in respect of meetings held during the Period are shown as follows:

Name of Director	Attendance Record of Meetings held during the Period <i>(Note)</i>				Annual General Meeting
	Board	Audit Committee	Nomination Committee	Remuneration Committee	
<b>Number of total meetings</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>
Mr. Zhang Liang Johnson	0/2	N/A	N/A	N/A	0/1
Ms. Wan Duo	2/2	N/A	1/1	1/1	1/1
Mr. Xu Liang	2/2	2/2	1/1	1/1	1/1
Mr. Chen Johnson Xi	2/2	2/2	1/1	1/1	0/1
Ms. Zhang Yibo	2/2	2/2	1/1	1/1	1/1

*Note: The attendance record shown above related to those meetings of the Board/committee held during the Directors' respective tenure during the Period.*

## Corporate Governance Report

### AUDITOR'S REMUNERATION

The fees in respect of audit and non-audit services provided by the external services providers, SHINEWING (HK) CPA Limited (for audit services) and SHINEWING (HK) CPA Limited and its affiliated companies (for non-audit services) to the Group for the year ended 31 December 2022 amounted to approximately HK\$790,000 and HK\$92,000 respectively. The non-audit services included primarily services in connection with reporting of continuing connected transactions, taxation and environment, social and governance consultancy.

### COMPANY SECRETARY

During the Period, Mr. Kwong Lun Kei Victor of Michael Li & Co., an external service provider, was the company secretary of the Company. His primary contact person at the Company is Mr. Chan Chun Sing, our Financial Controller. The biographical details of Mr. Kwong are set out in the section headed "Biographical Details of Directors and Senior Management" in this report.

### DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR ACCOUNTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the Period, which give a true and fair view of the financial position and performance of the Group on a going concern basis.

Statements of Directors' responsibilities, for preparing the consolidated financial statements of the Group and external auditor's reporting responsibilities are set out in the Independent Auditor's Report in this report.

### RISK MANAGEMENT AND INTERNAL CONTROL

The management has the responsibility to maintain appropriate and effective risk management and internal control systems, and the Board has the responsibility to review and monitor the effectiveness of the Group's risk management and internal control systems at least annually covering material controls, including financial, operational and compliance controls, to ensure that the systems in place are adequate and effective. The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

## **RISK MANAGEMENT AND INTERNAL CONTROL** *(Continued)*

The Company has in place an internal control system which is compatible with The Committee of Sponsoring Organizations of the Treadway Commission (“**COSO**”) 2013 framework. The COSO framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The five key components of the COSO framework are shown as follows:

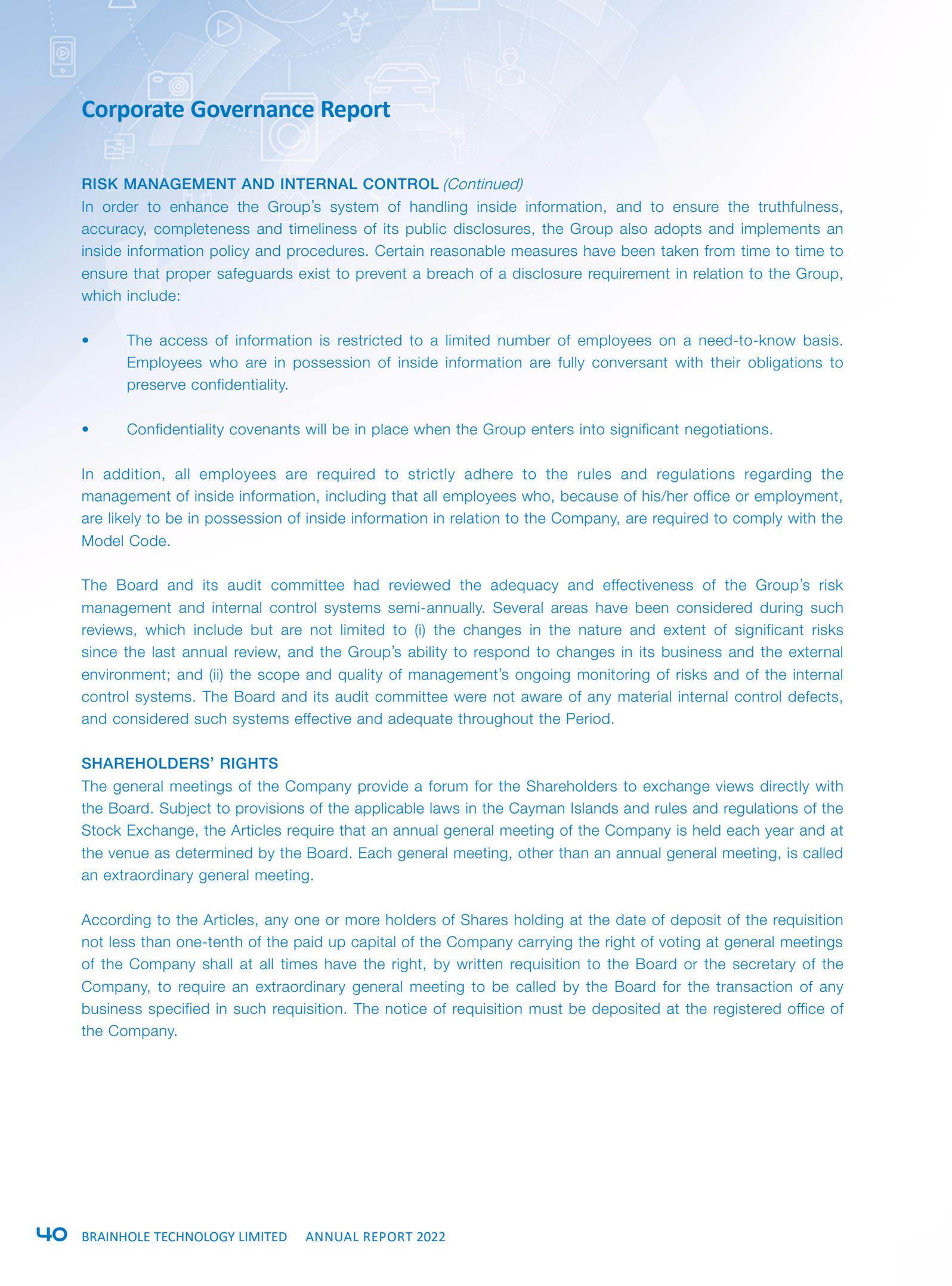
- **Control Environment:** A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- **Risk Assessment:** A dynamic and iterative process for identifying and analysing risks to achieve the Group’s objectives, forming a basis for determining how risks should be managed.
- **Control Activities:** Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- **Information and Communication:** Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- **Monitoring:** Ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning.

The Group’s risk management and internal control systems are, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has conducted an annual review on whether there is a need for an internal audit department. Given the Group’s relatively simple corporate and operation structure, as opposed to diverting resources to establish a separate internal audit department, the Board, supported by the audit committee, is directly responsible for risk management and internal control systems of the Group and for reviewing its effectiveness.

During the Period, the Company engaged an external independent consultant with professional staff in possession of relevant expertise to conduct an independent review of the risk management and internal control systems of the Group semi-annually in order to maintain high standards of corporate governance. The review plan has been approved by the Board and its audit committee. The Board and its audit committee had also reviewed the resources, staff qualifications and experience and training programs of the external independent consultant and considered they are adequate and sufficient.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of the relevant obligations under the SFO and the Listing Rules.



## Corporate Governance Report

### **RISK MANAGEMENT AND INTERNAL CONTROL** *(Continued)*

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality covenants will be in place when the Group enters into significant negotiations.

In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, are likely to be in possession of inside information in relation to the Company, are required to comply with the Model Code.

The Board and its audit committee had reviewed the adequacy and effectiveness of the Group's risk management and internal control systems semi-annually. Several areas have been considered during such reviews, which include but are not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems. The Board and its audit committee were not aware of any material internal control defects, and considered such systems effective and adequate throughout the Period.

### **SHAREHOLDERS' RIGHTS**

The general meetings of the Company provide a forum for the Shareholders to exchange views directly with the Board. Subject to provisions of the applicable laws in the Cayman Islands and rules and regulations of the Stock Exchange, the Articles require that an annual general meeting of the Company is held each year and at the venue as determined by the Board. Each general meeting, other than an annual general meeting, is called an extraordinary general meeting.

According to the Articles, any one or more holders of Shares holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The notice of requisition must be deposited at the registered office of the Company.

## **SHAREHOLDERS' RIGHTS** *(Continued)*

Subject to the provisions of the Articles, eligible Shareholders who wish to move a resolution at any extraordinary general meeting of the Company may, by means of requisition, convene an extraordinary general meeting following the procedures set out above.

Shareholders may direct enquiries about their shareholdings to the Company's share registrars. To the extent the requisite information of the Company is publicly available, Shareholders and the investing community may at any time make enquiry in respect of the Company in writing at the Company's office in Hong Kong by post, facsimile or email via the numbers and email addresses available on the Company's website at [www.brainholetechnology.com](http://www.brainholetechnology.com).

## **NOMINATION POLICY**

The Board has approved and adopted the nomination policy which sets out the principles guiding the nomination committee to identify and evaluate a candidate for nomination to the Board for appointment or to the Shareholders of the Company for election as a Director of the Company. The policy contains a number of factors to which the nomination committee has to adhere when considering nominations. These factors include the candidate's skills and experience, diversity perspectives set out in the Board diversity policy, the candidate's time commitment and integrity, and the independence criteria under Rule 3.13 of the Listing Rules if the candidate is proposed to be appointed as an independent non-executive Director. The policy also lays down the following nomination procedures: the nomination committee (a) will take appropriate measures to identify and evaluate a candidate; (b) may consider a candidate recommended or offered for nomination by a Shareholder of the Company; and (c) will, on making the recommendation, submit the candidate's personal profile to the Board for consideration.

## **BOARD DIVERSITY POLICY**

The Board has approved and adopted the Board diversity policy which sets out the approach to achieve diversity in the Company's Board.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision will be based on merit and contribution that the selected candidates may bring to the Board.

# Corporate Governance Report

## DIVIDEND POLICY

The Board has approved and adopted a dividend policy (the “**Dividend Policy**”) in compliance with code provision F.1.1 of the CG Code. It is the policy of the Board that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its Shareholders value.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- the actual and expected financial performance of the Company and each of the members of the Group;
- the capital and debt level of the Group;
- the general market conditions;
- the business conditions and strategies of the Group;
- the expected working capital requirements, capital expenditure requirements and future development plans of the Group;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- the liquidity position of the Group;
- any restrictions on dividend payouts imposed by any of the Group’s lenders;
- the statutory and regulatory restrictions which the Group is subject to from time to time;
- interests of Shareholders; and
- any other relevant factors that the Board may deem appropriate.

The payment of dividend by the Company is also subject to any restrictions under the applicable laws, rule and regulations and the Articles. The Board will from time to time review the Dividend Policy and may exercise at its absolute and sole discretion to update, amend and/or modify the Dividend Policy at any time as the Board deems fit and necessary. There is no assurance that dividends will be paid in any particular amount for any specific reporting period.

## INVESTOR RELATIONS

The Company establishes different communication channels with investors to update them with the latest business development and financial performance including the publication of interim and annual reports, the publishing and posting of notices, announcements and circulars on the websites of the Stock Exchange and the Company in order to maintain a high level of transparency.

## CONSTITUTIONAL DOCUMENTS

Pursuant to Rule 13.90 of the Listing Rules, the Company has published its memorandum of association and the Articles on the respective websites of the Stock Exchange and the Company. The Board proposes to recommend that the Shareholders make certain amendments to the existing amended and restated memorandum and articles of association of the Company, among other things, to conform to the core standards for shareholder protections. The proposed amendments, and the adoption of the new memorandum and articles of association, shall be subject to the passing of a special resolution by the Shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, 31 May 2023. For details, please refer to the announcement and circular of the Company dated 6 April 2023 and 27 April 2023, respectively.

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

### Introduction

This Environmental, Social and Governance (“ESG”) Report summarises and reports on the sustainable development practice carried out by Brainhole Technology Limited (the “Company”) and its subsidiaries (collectively known as “the Group” or “Group” or “We”) covering the period from 1 January 2022 to 31 December 2022 (the “Year”). The ESG Report covers various works on sustainable development and the ESG performance of the Group.

### Reporting Scope

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities). The ESG Report sets out the overall environmental and social policies of the Group when conducting business in the People’s Republic of China (the “PRC” or “China”). During the Year, the reporting scope of the Group was carefully determined based on the location of the Group’s principal activities and the entities with significant environmental impact, thus mainly are the disclosure of the performance of (i) the plants, offices and dormitories of Dongguan Jia Jun Electronic Technology Company Limited (“Dongguan Jia Jun”), (ii) Guangzhou Weaving Communications Telecommunications Technology Limited\* (廣州織網通訊科技有限公司) (“Guangzhou Weaving”), and (iii) the office of Top Dynamic Enterprises Limited (“TD Enterprises”) located in Cheung Sha Wan, Hong Kong (“Cheung Sha Wan Office”).

Details about the corporate governance, please refer to the Corporate Governance Report on page 32 to 42.

### Reporting Framework

This ESG Report is prepared and disclosed by the Group in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) and in compliance with the “comply or explain” provisions thereof.

### Reporting Principles

The content of the ESG Report is determined through stakeholder engagement and materiality assessment process, which includes identifying ESG-related issues, collecting and reviewing the management and stakeholders’ opinions, assessing the relevance and materiality of the issues and preparing and validating the information reported. The ESG Report covers all key issues that are concerned by different stakeholders.

Quantitative environmental and social KPIs are disclosed in the ESG Report so that stakeholders are able to have a comprehensive understanding of the Group’s ESG performance. Information of the standards, methodologies, references and source of key emission and conversion factors used on these KPIs are stated wherever appropriate. The Group had adopted consistent methodologies as far as reasonably practicable for convenient comparison with ESG performance in different years. The Group had presented and elaborated any changes in methodologies (if any) in corresponding section.

### Comments and Feedback

Details about the ESG performance of the Group, please visit our official website ([www.brainholetechnology.com](http://www.brainholetechnology.com)) and annual reports. We value your opinions on this Report. Please feel free to email us at [info@brainholetechnology.com](mailto:info@brainholetechnology.com) if you have any advice or suggestion.



## Environmental, Social and Governance Report

### SUSTAINABLE DEVELOPMENT OVERVIEW AND MANAGEMENT OBJECTIVES OF THE GROUP

We believe our success is founded upon the principles and concepts of sustainability. Therefore, we are committed to providing high-quality products, value-added solution kits services and engineering solutions services for customers, whilst at the same time striving to preserve the environment and support the communities through its social responsibility practices. The Group aims to develop the world-leading scientific and technological research achievements as a supplier of world-leading high-tech products and smart solutions. While serving the people and enhancing the living standard of the people and community, we are also committed to improving and enhancing the sustainable development of the environment and society. To this end, the Group has established several management systems in response to different business operation demands to guarantee that all the operation stations can meet the relevant local and international standards. We actively manage business in an environmentally and socially responsible manner and continue to develop and provide high-quality products and services in line with national policies on green and sustainable development, in order to make contributions to the environmental protection.

### Board Governance Statement

The Group is committed to the implementation of corporate goals and visions as well as the active fulfillment of social responsibilities to benefit all stakeholders. To ensure an appropriate and effective ESG management approach is developed, the Board has stipulated clear duties and responsibilities to directly manage and supervise the implementation of the ESG-related issues by the Group. The Group is determined to contribute to society and protect the environment under the principle of sustainable development. For the sake of effective implementation of sustainable development strategy, the Board took the responsibility of facilitating and supervising the establishment of communication channels among departments for convenient communication on ESG matters. Furthermore, the Board is also responsible for monitoring the formulation and reporting of the ESG strategies of the Group as well as assessing and identifying the ESG risks of the Group timely to ensure the effectiveness of the ESG risk management and internal control system so as to enhance the ESG performance of the Group.

In addition, the Board engaged an independent consultancy to assist the Group in the management of ESG affairs during the Year, including conducting data and information collection and analysis, and making recommendations to improve ESG performance. The consultancy also assisted the Board to collect and analyze stakeholders' opinion on ESG matters and conducted materiality assessment. The stakeholders were asked to score and rank ESG issues as they concerned so as to identify the Group's material ESG issues. The Board will also review the content and quality of the annual ESG report to ensure that it meets the requirements of the Board. The Board will also monitor developments in the market and regulatory authorities, and make adjustments to the ESG management approach as appropriate in order to effectively lead the ESG process of the Group.

### Stakeholders Communication

The Group believes that the stakeholders' engagement and their continuous support are important for the long-term development of the Group. The Group communicated with the stakeholders under the expectation of improving the Group's sustainable development strategy and implementing its sustainable development goals. Therefore, we adopted a variety of communication methods to allow stakeholders from different areas and levels to express their opinions and suggestions, and we also responded to stakeholders' expectations and concerns in different channels to improve our ESG performance and the future development strategies.

The Group engaged an independent third party consultant for the preparation of the ESG Report for the Year to assist in the collecting of the opinions of the internal stakeholders regarding to ESG issues. This will help the Group to conduct the materiality assessment effectively and comprehensively in the future, and the results will be taken as reference for the purpose of enhancing the internal management of the Group. The Group will increase the engagement of different stakeholders to collect their valuable and constructive opinions and suggestions on the development of the Group in the future.

# Environmental, Social and Governance Report

## SUSTAINABLE DEVELOPMENT OVERVIEW AND MANAGEMENT OBJECTIVES OF THE GROUP

(Continued)

### Stakeholders Communication (Continued)

Stakeholder	Requirement and Expectation	Communication and Response
<b>Governments and regulatory bodies</b>	<ul style="list-style-type: none"> <li>• Compliance with national laws and regulations</li> <li>• Tax payment in full and on time</li> <li>• Safety production</li> </ul>	<ul style="list-style-type: none"> <li>• Regular reporting of information</li> <li>• Examination and inspection</li> </ul>
<b>Shareholders</b>	<ul style="list-style-type: none"> <li>• Operating in accordance with laws</li> <li>• Enhance company value</li> <li>• Transparent information and efficient communication</li> </ul>	<ul style="list-style-type: none"> <li>• General meeting</li> <li>• Company announcement</li> <li>• E-mail, telephone and company website</li> </ul>
<b>Partners</b>	<ul style="list-style-type: none"> <li>• Operation with integrity</li> <li>• Equal rivalry</li> <li>• Performance of contracts</li> <li>• Maintain stable and sound relationship</li> </ul>	<ul style="list-style-type: none"> <li>• Review and evaluation meeting</li> <li>• Business communication</li> <li>• Negotiation and cooperation</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>• High-quality products and services</li> <li>• Performance of contracts</li> <li>• Operation with integrity</li> </ul>	<ul style="list-style-type: none"> <li>• Customer opinion investigation</li> <li>• Customer communication meetings</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Emission compliance</li> <li>• Energy saving and emission reduction</li> <li>• Conservation of ecosystem</li> </ul>	<ul style="list-style-type: none"> <li>• Communication with local environmental department</li> <li>• Investigation and examination</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Protection of rights</li> <li>• Occupational health and safety</li> <li>• Remunerations and benefits</li> <li>• Career development</li> </ul>	<ul style="list-style-type: none"> <li>• Employee meetings</li> <li>• Employee mailbox</li> <li>• Training and workshop</li> <li>• Employee activities</li> </ul>
<b>Society and the public</b>	<ul style="list-style-type: none"> <li>• Transparent and available information</li> </ul>	<ul style="list-style-type: none"> <li>• Company website</li> <li>• Company announcement</li> </ul>

# Environmental, Social and Governance Report

## MATERIALITY ASSESSMENT

In order to develop ESG management approach in a clear and effective manner, the Group conducted a materiality assessment during the Year to identify ESG issues critical to its business and stakeholders. This materiality assessment is based on stakeholder questionnaires, opinion analysis by professional third party ESG consultants and the materiality maps<sup>1</sup> provided by reputable external institutions. During the Year, the Group identified the following 8 material ESG-related issues, which are also the focus of discussion in this report.

Topics	Material issues	Relevant sections
Environment	Greenhouse gas and energy management	<ul style="list-style-type: none"> <li>Environmental Protection</li> <li>Greenhouse Gas and Energy Management</li> </ul>
	Water and wastewater management	<ul style="list-style-type: none"> <li>Environmental Protection</li> <li>Water Resources and Wastewater Management</li> </ul>
	Hazardous waste and environmental incidents	<ul style="list-style-type: none"> <li>Environmental Protection</li> <li>Waste Management</li> <li>Pollution Management</li> </ul>
Society	Occupational health and safety	<ul style="list-style-type: none"> <li>Employment and Labour Practices</li> <li>Occupational Health and Safety</li> </ul>
	Employee benefits	<ul style="list-style-type: none"> <li>Employment and Labour Practices</li> <li>Working Conditions and Welfare</li> </ul>
Business operations and ethics	Supply chain management	<ul style="list-style-type: none"> <li>Responsible Operating Practices</li> <li>Responsible Procurement</li> </ul>
	Quality control	<ul style="list-style-type: none"> <li>Responsible Operating Practices</li> <li>Superior Quality</li> </ul>
	Information security and privacy	<ul style="list-style-type: none"> <li>Responsible Operating Practices</li> <li>Intellectual Property Rights and Privacy Protection</li> </ul>

<sup>1</sup> The materiality assessment referred to the ESG Materiality Map provided by Morgan Stanley Capital International (MSCI) and the Materiality Map provided by Sustainability Accounting Standards Board (SASB) respectively.

# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION

### Green Operation Philosophy

As the Group's manufacturing and operating facilities are mainly based in the PRC, the Group strictly complies with local relevant environmental laws and regulations, including but not limited to Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法) and Law of the People's Republic of China on Prevention of Environmental Pollution Caused by Solid Waste (中華人民共和國固體廢物污染環境防治法). At the same time, the Group is committed to identifying and controlling the potential risks which have a significant impact on the environment during the process of operation, so as to minimise the impact on the environment arising from the Group's business operations. We have adopted different measures to integrate environmental protection concepts into daily operations and build a comprehensive enterprise that takes economic, environmental and social aspects into account. For example, Dongguan Jia Jun developed environmental management programs, regularly reviewed the key operation processes of each department and identified the environmental risks possibly involved in the operation, implemented control measures on any identified significant risks, as well as provided suitable training for staff when and as appropriate, in order to effectively implement measures to reduce the impact of the environmental risks. Dongguan Jia Jun and TD Enterprises have also obtained ISO14001:2015 environment management system certification.

The Group recognises the importance of effective use of resources and has been committed to streamlining operations with a view to advocating and pursuing environmental protection policies to optimise resource use, save energy and reduce consumption. Through formulating, implementing and improving policies and procedures related to resource and energy management, the Group regulates and makes good use of resources in the production process, thereby avoiding waste of resources, reducing environmental pollution and improving production efficiency. We have actively promoted the importance of environmental protection to employees through training, so as to raise their awareness of environmental protection and practice the concepts of energy conservation, consumption reduction, waste reduction at source, effective use of resources and green office. We also monitor the use of resources such as the consumption of electricity, water, paper and packaging materials.

During the Year, the Group had not received any complaints from its customers or any other parties in respect of any environmental protection issues, and had not experienced any material environmental incidents arising from its manufacturing activities. At the same time, no material administrative sanctions or penalties were imposed upon the Group for the violation of environment-related laws and regulations which had an adverse impact on its operations.

# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION *(Continued)*

### Greenhouse Gas and Energy Management

#### *Climate Change and Greenhouse Gas Emissions*

In recent years, issues such as climate change and greenhouse gas emissions have gained international attention. As an eco-friendly enterprise, the Group has also strengthened the management of climate-related risks to prepare for the possible impacts of climate change on business operations. At present, the Group has adopted a series of feasible measures to gradually reduce greenhouse gas emissions in the production process as a short-term goal, and is committed to exploring plans to achieve carbon neutrality in the long run.

The Group's direct greenhouse gas emissions and energy indirect greenhouse gas emissions are produced from the consumption of vehicle fuels and purchased electricity, respectively, while other indirect greenhouse gas emissions come from methane generated by delivering waste paper to landfills, electricity consumed in government water supply and wastewater treatment and employees' business travel. Among the above activities, the Group's greenhouse gas emissions mainly come from purchased electricity. In order to reduce the carbon footprints in the Group's operations, the Group has adopted a series of greenhouse gas emissions reduction measures. In terms of production, in order to achieve the goal of saving electricity and reducing emissions, we eliminate obsolete instruments and use high-energy-saving electronic instruments and machines instead, and suspend the machines when not in use to reduce machine idling and improve production efficiency. During the Year, due to the COVID-19 pandemic, the Group continued to cut the number of business trips and reduced corresponding greenhouse gas emissions by 83%. In addition to choosing online meetings over business trips whenever possible, we will also prioritise direct flights for inevitable business trips to reduce greenhouse gas emissions.

The Group's greenhouse gas emissions are as follows:

Greenhouse Gas Emissions	Unit	2022	2021
Total greenhouse gas emissions	tCO <sub>2</sub> e	<b>3,699</b>	4,038
Scope 1 – direct greenhouse gas emissions <i>(Note (1))</i>	tCO <sub>2</sub> e	<b>23</b>	27
Scope 2 – energy indirect greenhouse gas emissions <i>(Note (2))</i>	tCO <sub>2</sub> e	<b>3,655</b>	3,975
Scope 3 – other indirect greenhouse gas emissions <i>(Note (3))</i>	tCO <sub>2</sub> e	<b>20</b>	36
Intensity of greenhouse gas emissions	tCO <sub>2</sub> e/employee	<b>11.31</b>	11.12

# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION *(Continued)*

### Greenhouse Gas and Energy Management *(Continued)*

#### Climate Change and Greenhouse Gas Emissions *(Continued)*

*Notes:*

- (1) Calculated based on the “Land Transport Enterprises – Guidelines on Greenhouse Gas Emission Accounting and Reporting (Trial)” issued by the National Development and Reform Commission of the PRC and “Appendix 2: Reporting Guidance on Environmental KPIs” published by the Hong Kong Stock Exchange.
- (2) Calculated based on the “2011 and 2012 Average Carbon Dioxide Emission Factors for Regional Power Grids in China” issued by the National Development and Reform Commission of the PRC and the emission factors provided by the CLP Power Hong Kong Limited.
- (3) Calculated based on the Carbon Emissions Calculator of the International Civil Aviation Organization (ICAO), data provided by Shenzhen Water (Group) Co., Ltd. and the “Appendix 2: Reporting Guidance on Environmental KPIs” published by the Hong Kong Stock Exchange.

In response to extreme weather caused by climate change, Guangzhou Weaving has formulated a set of emergency plans. In the case of special weather, it will communicate with employees in advance and adopt special work arrangements, such as stopping outdoor work to protect employees’ health and safety. Dongguan Jia Jun has also established the “Emergency Response Measures” and set up an emergency group to establish preventive measures for possible natural disasters such as earthquakes and strong typhoons, and provide relevant emergency guidelines for employees, as well as stop work when necessary, and arrange employees to leave safely. The plan has also set out various daily wind and rainstorm preventive measures to reduce the possibility of casualties caused by extreme weather.

As many governments and international organizations are gradually tightening reporting requirements for greenhouse gas emissions or raising the corporate emission disclosure standards, the Group has shouldered more responsibilities on emissions reporting. Therefore, the Group may face higher operating costs in the future to cope with the increased compliance costs and implementation of new practices. In order to respond to the risks associated with climate change in a more effective manner, the Group not only reviews the relevant policies and regulatory updates to identify climate-related risks and opportunities that may have a financial impact on the Group’s business, but also consults professional advisors on compliance responsibilities for reporting greenhouse gas emissions and suggestions for improvement.

# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION (Continued)

### Greenhouse Gas and Energy Management (Continued)

#### Use of Energy

The Group is committed to continually optimising its operating processes to save energy, and therefore implements power saving measures in its offices. The Group regularly inspects and maintains power supply facilities, works out statistic on the monthly power consumption of each work area, and implements energy-saving measures to effectively control electricity consumption. For example, we give priority to LED lamps and light bulbs when selecting light tubes to improve energy efficiency; we divide different areas in the plant and office, and turn off air-conditioning, lighting and fans in some areas when no one is using them. We also clean the lighting equipment, fan blades and air conditioners on a regular basis to improve their operating efficiency and reduce waste of electricity. When using air conditioners, we maintain the indoor temperature at 24 to 25 degrees and ensure that the windows are closed to reduce waste of air conditioning. Fans are installed to increase indoor air ventilation to reduce power consumption. Guangzhou Weaving also allows employees to put on casual wear to work in hot weather if there is no meeting with clients to reduce the use of air-conditioning. We encourage employees to save energy, avoid excessive use of lighting and air-conditioning, and turn off lighting in corridors, staircases, meeting rooms and reception areas when there is sufficient illumination. In addition, we put energy-saving slogans next to the switches to remind them to save electricity. Currently, the Group aims to reduce unnecessary energy consumption and improve energy efficiency, and will continue to gradually reduce the intensity of energy consumption by adopting various measures, such as the use of energy-saving equipment and employee education.

The energy consumption of the Group is as follows:

Energy Consumption	Unit	2022	2021
Total energy consumption	MWh	<b>7,029</b>	7,651
Vehicle gasoline consumption (Note (1))	MWh	<b>90</b>	103
Purchased electricity consumption (Note (2))	MWh	<b>6,939</b>	7,651
Intensity of energy consumption	MWh/employee	<b>21.50</b>	21.08

#### Notes:

- (1) Calculated based on the "Appendix 2: Reporting Guidance on Environmental KPIs" published by the Hong Kong Stock Exchange.
- (2) Based on the actual purchased electricity consumption of the Group.

# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION (Continued)

### Water Resources and Wastewater Management

The Group recognises the importance of water resources, and is dedicated to reducing water consumption and the impact of sewage on the environment. The water resources consumed by the Group include the water employed in cooling processes of Dongguan Jia Jun, which can be reused in the production process and therefore there is no wastewater discharge and no large amount of water consumption involved. In order to achieve water resource conservation and reduce domestic sewage discharge, the Group clearly introduces water conservation methods to its employees, including the development of clear guidelines and regulations on water facilities, domestic water and water for production in the Group. We regularly check water facilities to avoid wasting water resources due to the damage of water facilities; employees are required to “only turn on the water facilities for use and turn off when not in use” in daily water use to avoid long flows of drinking water. In addition to the above measures, the Group also promotes water conservation among employees through posters, promotional cards and training to raise employees’ awareness of water conservation and develop the habit of consciously turning off water when not using it. Currently, the Group aims to avoid unnecessary water use and improve water efficiency, and is committed to finding ways to reduce water intensity. During the Year, the Group did not have any problems related to sourcing suitable water.

The total water consumption of the Group is as follows:

Water Consumption	Unit	2022	2021
Total water consumption (Note (1))	m <sup>3</sup>	13,769	23,670
Water consumption intensity	m <sup>3</sup> /employee	42.11	65.21

Note:

- (1) As the water consumption and drainage of the Cheung Sha Wan Office and Guangzhou Weaving are under the full control of the property management company, water-related data cannot be collected.

The Group’s wastewater is mainly domestic sewage from the factory and dormitories of Dongguan Jia Jun and the office in Cheung Sha Wan. The Group understands that wastewater emissions destroy the ecological environment, and thus strictly prohibit direct discharge of wastewater from production into domestic sewage pipelines. The domestic sewage shall only be discharged to the municipal wastewater pipeline after being treated by septic tanks and meeting the standards to ensure no negative impact of the Group’s operations on the environment. In addition, Dongguan Jia Jun regularly arranges third-party testing agencies to test wastewater and domestic sewage to ensure compliance with local relevant water pollutant emission standards. During the Year, the Group did not receive any notice with respect to illegal discharge of sewage.

# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION *(Continued)*

### Waste Management

The Group promotes “3R” programs in its factories and offices, which means waste reduction at source, reuse and recycling, and is committed to reducing waste generation. We also encourage the use of environmentally-friendly alternative materials in the production process, optimisation of production processes and implementation of inventory control and management to reduce waste. The Group will recycle reusable materials as much as possible, and turn waste into useful materials. Currently, the Group aims to promote and implement the concept of circular economy and strives to reduce waste generation through employee education and recycling measures.

In order to reduce the impact of solid waste on the environment, the Group has developed clear guidelines for employees to identify, collect, store and dispose of solid waste, and provided employees with knowledge training about waste classification to allow employees to correctly place waste in the appropriate collection container by category. When disposing of non-hazardous waste, employees will also properly classify recyclable waste, such as metal frames, paper and plastic waste generated during production and operation, and deliver such waste to a qualified waste contractor for processing. For unrecyclable non-hazardous waste which comprised of general garbage in dormitories and offices, it is cleaned daily by external cleaning staff. Through effective management and treatment of waste, the recovery rate of the Group’s non-hazardous waste reached 52% (2021: 56%), which greatly reduced the impact of non-hazardous waste on the environment.

The Group has also strongly advocates the concepts of reducing paper consumption, reducing waste at source, and conducting publicity and training. The Group attaches great importance to paper saving and waste reduction. By encouraging the use of email systems to distribute information internally as much as possible, the Group reduces the use of fax and photocopying documents. To promote greater paper efficiency, we encourage double-sided copying and printing, and use recycled paper to print informal documents. Each department must apply for the amount of paper according to the monthly office requirements so that we can monitor the paper consumption and avoid excessive use. In addition, head of each department will supervise and evaluate the use of paper in the office, and set goals for and measures to reduce paper consumption. During the Year, a total of 2.7 tonnes (2021: 2.8 tonnes) of paper was used by the Group.

In addition, the hazardous waste generated by the Group includes the waste organic solvents produced in the ultrasonic cleaning of packaging products and the cleaning of delicate parts in taping and bonding machines by Dongguan Jia Jun, waste mineral oil generated during machine maintenance, and waste batteries and ink cartridges generated in the operation of each office. In order to properly handle hazardous waste and avoid potential environmental problems caused by improper handling of hazardous waste, after collecting hazardous waste, employees should clearly label the details of such hazardous waste, including its name, quantity and production location and store it in a properly defined space. Employees are also required to wear protective equipment when handling and processing hazardous waste to protect their safety. Dongguan Jia Jun has engaged a licensed hazardous waste treatment service provider to properly handle hazardous waste in accordance with the Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, so as to avoid second environmental pollution. During the Year, the total hazardous waste of Dongguan Jia Jun processed by a licensed service provider amounting to 2,073 kg (2021: 3,640 kg).

# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION (Continued)

### Waste Management (Continued)

The non-hazardous waste and hazardous waste generated by the Group's business operations were as follows:

Waste	Unit	2022	2021
Total non-hazardous waste generated (Note (1))	tonnes	40	57
Intensity of non-hazardous waste	tonnes/employee	0.12	0.16
Total hazardous waste generated (Note (2))	kg	2,072	4,408
Intensity of hazardous waste	kg/employee	6.34	12.14

#### Notes:

- (1) Calculated based on the actual weight of the non-hazardous waste generated, namely metallic frames, paper and plastic waste generated by the Group. The general office waste was calculated based on the "Research on Solutions to Domestic Solid Waste in Cities of China" issued by the Beijing Environmental Sanitation Administration and the estimated daily amount of general waste and the volume-to-weight conversion coefficient provided by the US Environmental Protection Agency.
- (2) Calculated based on the actual weight of hazardous waste generated.

### Pollution Management

The Group's exhaust gas from production is mainly derived from the production of semiconductor products by Dongguan Jia Jun, while Guangzhou Weaving primarily operates in its office, thus no material exhaust gas is generated. The production flue gas generated by Dongguan Jia Jun included those from the process of sintering, injection molding and sonicleaning as well as shape cutting and lettering. Dongguan Jia Jun emitted its exhaust gas from the process of sintering, injection molding and sonicleaning after treatment, through exhaust funnel at a high altitude, in compliance with the Emission Standard of Volatile Organic Compounds for Shoe-making Industry (DB44/817-2010) (《製鞋行業揮發性有機化合物排放標準》(DB44/817-2010)) and Emission Limits of Air Pollutants (DB44/27-2001) (《大氣污染物排放限值》(DB44/27-2001)). As for the process of shape cutting and lettering, Dongguan Jia Jun strengthened the mechanical ventilation in workshops or utilised the dust-removal device internally installed in the equipment for treatment before emitting exhaust gas to reduce the impact on workers and surrounding environment. In addition, Dongguan Jia Jun always keeps the ventilation system on in the workshops during production, periodically cleans the ventilation machines and their blades and conducts regular maintenance on machines as well as equipment used for dust and smoke filtration, ensuring the normal operation of equipment. During the Year, the Group had not received any notification on the non-compliance in respect of emitting exhaust gases from production, while Dongguan Jia Jun has completed and passed the inspection on exhaust gases and ensured the compliance of exhaust gas emission.

## Environmental, Social and Governance Report

### ENVIRONMENTAL PROTECTION *(Continued)*

#### Pollution Management *(Continued)*

In addition to few exhaust gas from production, the use of vehicles by the Group was also attributable to the generation of exhaust gas. We recorded and monitored the fuel consumption on a continuing basis and periodically reviewed adherence to vehicle emission standards for vehicles, so as to maximise the efficiency of vehicles. Furthermore, we also regularly arranged inspection, repair and maintenance on the vehicles to maintain their efficiency, and tried to avoid the waste of fuel arising from vehicles with running engine as much as possible.

The Group's vehicle emissions are as follows:

Vehicle Emissions <i>(Note (1))</i>	Unit	2022	2021
Nitrogen oxides (NOx)	kg	5.45	12.59
Sulphur oxides (SOx)	kg	0.14	0.16
Particulate matters (PM)	kg	0.40	1.09

*Note:*

- (1) The vehicle emissions are calculated based on the "Appendix 2: Reporting Guidance on Environmental KPIs" published by the Hong Kong Stock Exchange.

In addition, despite the fact that the noise generated during the Group's production has no significant impact on the surrounding environment, the Group is committed to strictly controlling the noise generated during its production. During the year, Dongguan Jia Jun has entrusted a third-party testing organization to undertake noise testing to ensure compliance with relevant local and industry standards.

# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION (Continued)

### Packaging Materials

The Group's packaging materials are mainly used in two main areas, including the use of paper cardboard packaging with customised plastic inserts for its self-manufactured products and trading products sourced from third parties in batches, as well as the packaging of various intelligent system parts and optical fiber products.

The consumption of packaging materials by The Group during the Year is as follows:

Use of Packaging Materials (Note (1))	Unit	2022	2021
Paper consumption	tonnes	21	32
Paper intensity	kg/thousand products units	0.014	0.018
Plastic consumption	tonnes	31	47
Plastic intensity	kg/thousand products units	0.019	0.027
Wood consumption	kg	44	67
Wood intensity	kg/million products units	0.028	0.038
Foam plastic consumption	kg	1.5	3
Foam plastic intensity	kg/million products units	0.001	0.002
Metal consumption	kg	34	56
Metal intensity	kg/million products units	0.021	0.032

Note:

- (1) Based on the actual packaging materials consumption records of Dongguan Jia Jun and Guangzhou Weaving.

# Environmental, Social and Governance Report

## EMPLOYMENT AND LABOUR PRACTICES

### Occupational Health and Safety

The Company prioritises employee safety and is committed to providing a safe working environment for incumbent employees. As a responsible employer, the Group strictly complies with laws and regulations related to occupational health and safety, including but not limited to the Law of the PRC on Work Safety (《中華人民共和國安全生產法》), the Law of the PRC on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and the Hong Kong Occupational Safety and Health Ordinance. Dongguan Jia Jun and TD Enterprises have been accredited by ISO45001:2018 Occupational Health and Safety Management System to identify and control health and safety risks, in order to reduce workplace injuries.

In response to hazardous factors of different positions in production processes, the Group provides safety training for relevant employees in advance, including reminding employees of necessary precautions and emergency measures for accidents, and ensuring all the employees are well acquainted with the internal work safety requirements and safe operation regulations, and proficient in safe operation skills, so as to reduce safety risks. In addition, the Group will arrange an annual fire drill for employees, and rectify any deficiencies found during the drill. The Group updated the training control procedure during the Year, and added the training content of occupational safety, including the internal audit content of the environment, occupational and health and safety system, as well as the methods for identifying additional hazards and evacuating workers in case of emergency.

The Group pays attention to potential occupational hazards in the working environment. According to the occupational hazards of different jobs, we provide corresponding personal protective equipments for our employees, such as filter gas mask, electrical insulated shoes, anti-acid overalls and anti-noise ear shields. Employees must wear personal protective equipments strictly according to the regulations, and we will regularly check the performance of personal protective equipments to make sure that it is safe to use. We maintain and inspect the production equipments and containers on a regular basis, with a view to reducing accidents. For employees who are exposed to occupational hazards, we also provide regular medical checkups to fully understand their health status.

Moreover, in an attempt to prevent, control and reduce the occurrence of various safety accidents, minimise the damages caused by accidents, and protect the life and property of the Group and its employees, we provide clear working guidelines for employees to tackle potential accidents in production processes, which covers a series of emergency plans and handling processes for fire, food poisoning, electric shock, typhoon, falling from height and workplace injuries. On top of this, we also have in place duly regulations on the management of work-related injuries, requiring employees to send the injured to the hospital immediately when the accident was found and truthfully report the incident to their superiors, so that the Group can carry out appropriate investigation and follow-up work to prevent the reoccurrence of similar accidents.

# Environmental, Social and Governance Report

## EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

### Occupational Health and Safety *(Continued)*

Other occupational health and safety measures adopted by the Group are as follows:

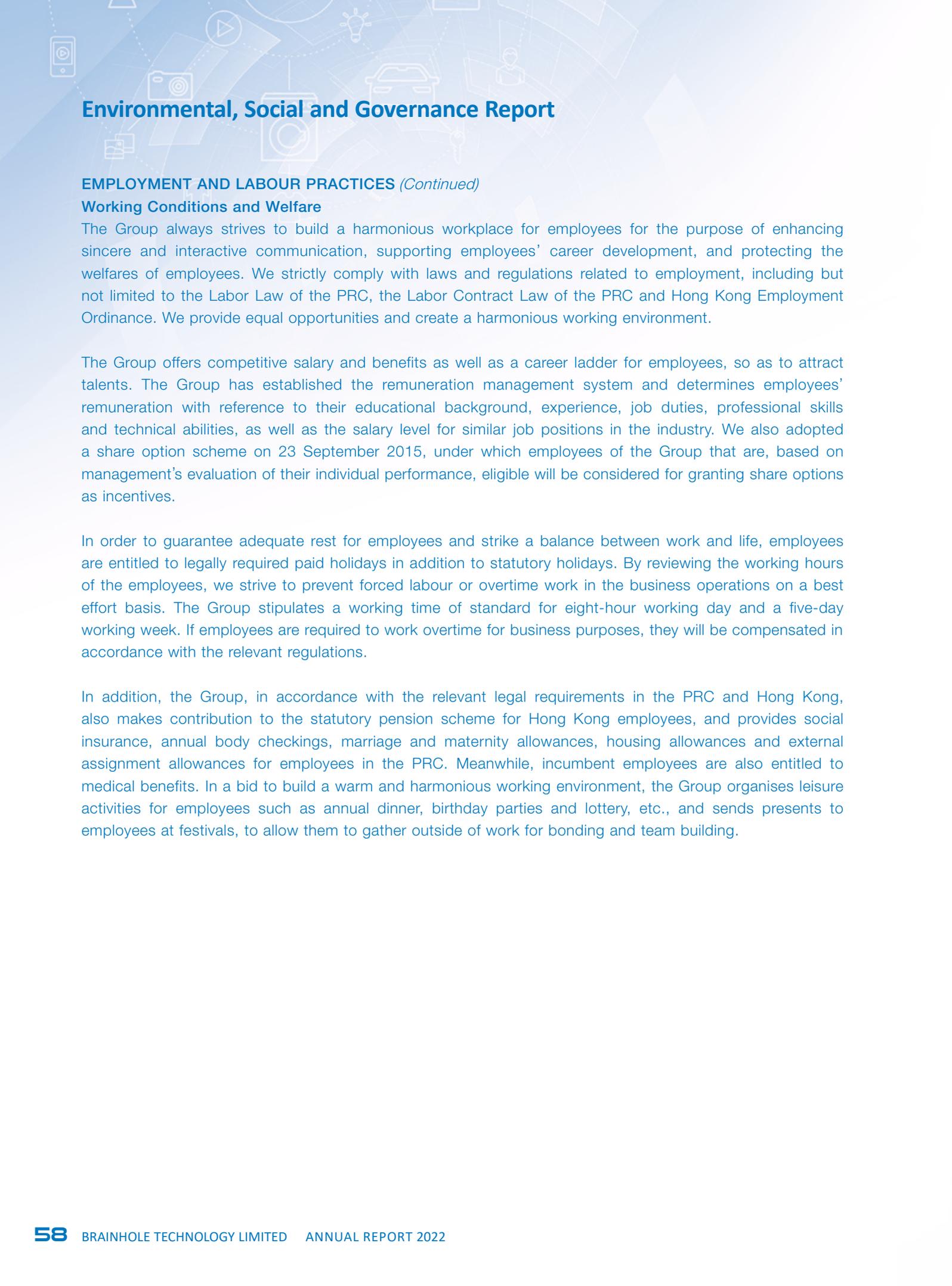
- Providing health checks to its PRC employees prior to commencement of employment;
- Streamlining production process on a continuous basis and reducing or eliminating the use of known hazardous substances in the manufacturing process to the extent practicable;
- Engaging qualified contractors for the inspection of fire safety equipment at the Group's plants and quarters and office premises;
- Providing guidance and specific technical training to employees who may come in contact with potentially hazardous substances;
- Prohibiting smoking at the workplace and factory quarters; and
- Regular cleaning of the water supply filters and daily garbage removal.

During the Year, the number of work injuries and the number of loss days due to work injuries recorded by the Group were 2 and 48 days respectively (the number of work injuries and the number of loss days due to work injuries were both 0 in 2021). The number and rate of work-related fatalities of the Group in the past three years were as follow:

Health and Safety	2022	2021	2020
Number of work-related fatalities (persons)	0	0	0
Rate of work-related fatalities (%)	0	0	0

### Responding to the COVID-19 pandemic

In face of the COVID-19 pandemic, the Group has developed a series of epidemic prevention measures to protect the health of employees and maintain environmental hygiene. Dongguan Jia Jun has set up an epidemic prevention team, which clearly divides the work and coordinates the epidemic prevention work of the Company, including material supply, sanitation and disinfection, and temperature check. All employees entering the plants must wear masks and have their temperature check at designated places. Only those whose temperatures within the normal range are permitted to enter the plants. Dongguan Jia Jun strictly checks the epidemic risk of each of the employees. If the employees have visited the severely infected area in the past two weeks, they must be quarantined at home to ensure that they have no symptoms of infection, and they can return to their positions after the completion of observation at home. The Group regularly conducts online epidemic prevention training and promotes the epidemic prevention work among employees to strengthen their awareness of hygiene and epidemic prevention. Meanwhile, the Group also purchased protective materials and distributed masks to employees. In addition, Guangzhou Weaving has complied with the requirements of Guangzhou government to conduct health registration, requiring all persons entering the office building to fill in personal health information through the "Sui Kang Code" and "Yue Kang Code", and provides materials such as sanitizer thereby ensuring the health and safety of employees.



## Environmental, Social and Governance Report

### EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

#### Working Conditions and Welfare

The Group always strives to build a harmonious workplace for employees for the purpose of enhancing sincere and interactive communication, supporting employees' career development, and protecting the welfares of employees. We strictly comply with laws and regulations related to employment, including but not limited to the Labor Law of the PRC, the Labor Contract Law of the PRC and Hong Kong Employment Ordinance. We provide equal opportunities and create a harmonious working environment.

The Group offers competitive salary and benefits as well as a career ladder for employees, so as to attract talents. The Group has established the remuneration management system and determines employees' remuneration with reference to their educational background, experience, job duties, professional skills and technical abilities, as well as the salary level for similar job positions in the industry. We also adopted a share option scheme on 23 September 2015, under which employees of the Group that are, based on management's evaluation of their individual performance, eligible will be considered for granting share options as incentives.

In order to guarantee adequate rest for employees and strike a balance between work and life, employees are entitled to legally required paid holidays in addition to statutory holidays. By reviewing the working hours of the employees, we strive to prevent forced labour or overtime work in the business operations on a best effort basis. The Group stipulates a working time of standard for eight-hour working day and a five-day working week. If employees are required to work overtime for business purposes, they will be compensated in accordance with the relevant regulations.

In addition, the Group, in accordance with the relevant legal requirements in the PRC and Hong Kong, also makes contribution to the statutory pension scheme for Hong Kong employees, and provides social insurance, annual body checkings, marriage and maternity allowances, housing allowances and external assignment allowances for employees in the PRC. Meanwhile, incumbent employees are also entitled to medical benefits. In a bid to build a warm and harmonious working environment, the Group organises leisure activities for employees such as annual dinner, birthday parties and lottery, etc., and sends presents to employees at festivals, to allow them to gather outside of work for bonding and team building.

# Environmental, Social and Governance Report

## EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

### Vocational Training and Development

In order to promote the sustainable development and efficient operation of the Group, the Group firmly believes that employees are the key to business development and is therefore committed to nurturing talent. In addition to the relevant safety training, the Group provides internal and external training courses regularly for its current employees. The employees must pass the assessment after finishing the training to confirm their learning results and ensure that their professional knowledge and personal development have been improved. The Group introduced a mentorship program whereby senior staff members will supervise new employees, and provide on-job guidance, thus encouraging employees to self-study and learn skills of their work. The head of respective department will also help them to facilitate smooth integration into the Group's operation process. In addition, the Group will invite experts and scholars to hold special seminars according to requirements of work, so as to enhance the academic skills of employees and improve work efficiency.

During the Year, training provided by our Group covered topics such as:

- Job-related knowledge training: including production process, related knowledge and material use, etc.
- Production management training: including production management process and supply chain management
- Quality management training: including the quality standards and assessments of the Group
- ISO system knowledge training: to provide employees with the content and standards of the ISO system
- Administrative management and systems training: to explain the Group's general administrative system, management system and the specific system of individual departments
- Occupational safety and health training: to introduce the knowledge of production safety and fire safety
- Comprehensive management skills training for management personnel: including personnel management and team building

# Environmental, Social and Governance Report

## EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

### Vocational Training and Development *(Continued)*

During the Year, the Group has provided in aggregate 8,951 hours (2021: 9,198 hours) of job related vocational training on the above topics to its staff.

Indicator		2022		2021	
		Percentage of employee trained (%)	Average training hours (hours)	Percentage of employee trained (%)	Average training hours (hours)
By gender	Male	84	27.7	81	25.2
	Female	89	29.9	87	25.5
By employment category	Senior	78	20.9	64	20.2
	Middle	93	28.0	94	28.7
	Junior	82	27.6	80	24.2

Meanwhile, the promotion or demotion of employees is conducted by the Group on basis of employees' working competence, performance, experiences and job vacancies. During the Year, the Group continued to adopt an open-door communication policy and carried out an annual review with its employees on their performance, with an aim of giving an equal opportunity of promotion and clear career path for employees.

### Anti-discrimination, Diversity and Inclusion

The Group is committed to guarantee that there is no discrimination against potential candidates or incumbent employees on account of their sex, religion, race, colour, age, physical conditions or hobbies, etc. The Group is an equal opportunity employer and recruits employees from the open market. During the recruitment, the Group focuses on individual merits and suitability to the relevant job requirements of the applicants, and prohibits discrimination in any form. The Group also prohibits any employee from committing any unethical acts such as violence or stalking against another employee, and employees are protected from harassment by the internal complaint mechanism to complain about unfair matters. The Group has formulated anti-discrimination procedures to prevent unfairness events, and provided complaint channels for employees to handle in a timely manner.

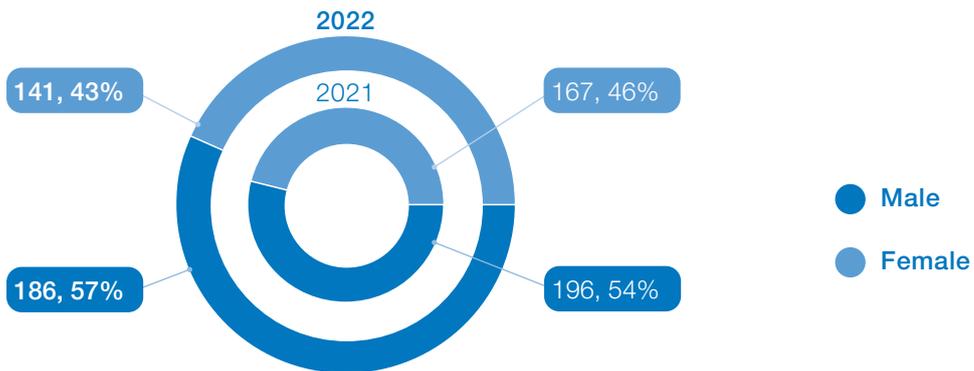
# Environmental, Social and Governance Report

## EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

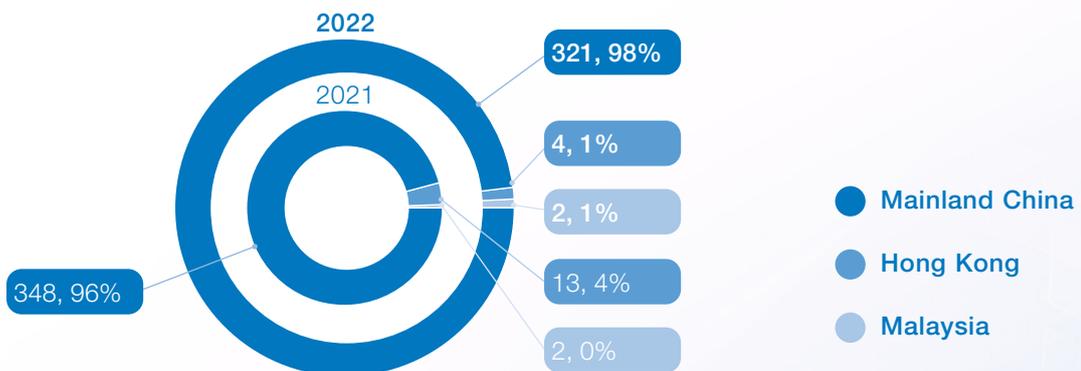
### Anti-discrimination, Diversity and Inclusion *(Continued)*

During the Year, the employee composition of the Group within the range of report are as follows:

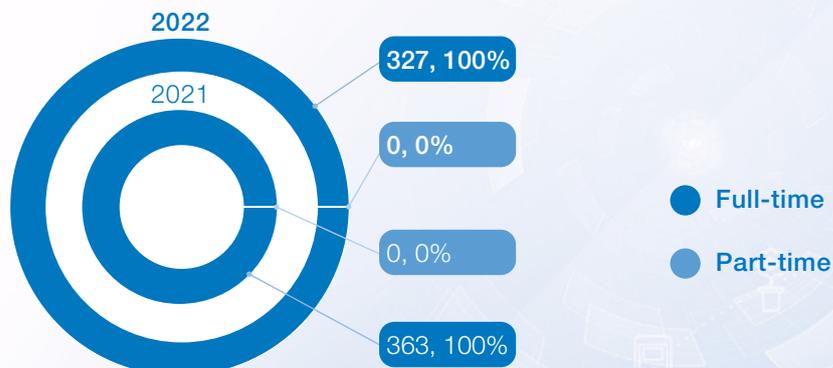
Number of employees by gender



Number of employees by geographical region



Number of employees by employment category



# Environmental, Social and Governance Report

## EMPLOYMENT AND LABOUR PRACTICES *(Continued)*

### Anti-discrimination, Diversity and Inclusion *(Continued)*

During the Year, the employee turnover rate(%) of the Group is as follows:

Indicator		2022	2021
By gender	Male	38	39
	Female	42	45
By age	<18	0	0
	18-30	50	49
	31-50	35	38
	>50	38	18
By region	Mainland China	42	43
	Hong Kong	75	7
	Malaysia	0	0

### Anti-child and Forced Labour

As a responsible employer, the Group advocates ethics and human rights at the workplace and explicitly prohibits the behaviours that violate human rights, such as child and forced labour. When engaging new staffs, we require applicants to submit their identity certificate documents to the Group for age verification. The Group will immediately terminate his/her employment and look into the reasons once discovering any employment of child worker who has deliberately concealed his/her age. During the Year, all employees of the Group were aged 18 or above. Before the formal entry of employees, the Group will enter into an employment contract with employees, which explicitly specifies the terms such as working hours, remuneration, insurance and compensation of employees, so as to protect the freedom and interests of employees, and avoid forced labour.

## RESPONSIBLE OPERATING PRACTICES

### Responsible Procurement

The Group continues to strive to improve the quality of its products and services, and to provide customers and the society with quality products and services by adhering to the principle of sustainable development. Support and co-operation of suppliers are essential to the Group's business operations. In selection of suppliers, we will take the product quality, delivery, production capacity, compliance and other factors as the evaluation criteria, and only suppliers who meet the criteria will be admitted as our qualified suppliers. Moreover, the environmental, health and safety performance of suppliers are taken into consideration in the selection of suppliers by the Group, in which we will give priority to suppliers with ISO quality or environmental management system certifications.

# Environmental, Social and Governance Report

## RESPONSIBLE OPERATING PRACTICES *(Continued)*

### Responsible Procurement *(Continued)*

Dongguan Jia Jun sets clear requirements for the use and control of suppliers' items such as products, components, raw materials, packaging materials, auxiliary materials to ensure that the products provided by suppliers do not exceed the upper limit of substances of high concern in REACH regulations of the European Union, and do not use ingredients prohibited in RoHS regulations of the European Union, so as to ensure that the Company's products will not affect the human body and the environment. For the products provided by suppliers, we will conduct different analysis and inspection in accordance with the specifications and requirements of relevant raw materials or products to ensure compliance with the statutory safety requirements for upper limit and our quality requirements, and minimise the environmental risk in the supply chain. In addition, in order to achieve resource conservation, Dongguan Jia Jun requires suppliers to provide environment-friendly products according to its business needs, such as minimising product composition in production and design.

The Group also follows an ethical procurement policy and strives to source raw materials and traded goods from socially responsible suppliers. In this regard, the Group trains its staff in charge of supply chain management to, on practicable basis, ensure that the materials and products provided by selected suppliers are in compliance with laws and regulations, as well as such suppliers abiding by employment laws and regulations against slavery and human trafficking, so as to reduce social risks in the supply chain. At the same time, Dongguan Jia Jun has formulated a policy to prohibit the use of any conflict minerals in its products, and has conducted due diligence to ensure that the purchased minerals or products come from legal origins.

In order to reduce environmental and social risks in the supply chain, Dongguan Jia Jun will conduct quality and environmental risk assessments on suppliers, and carry out on-site review on high-risk suppliers. In addition, Dongguan Jia Jun will also require suppliers to fill in a questionnaire to evaluate their performance in social responsibility risks. Guangzhou Weaving also conducts an annual assessment of suppliers, considering their social responsibility risk performance, such as past litigation situations. According to the results of on-site review and questionnaire evaluation, we will give priority to cooperation with suppliers with good evaluation results and remove suppliers who do not meet the cooperation standards from the list of qualified suppliers, so as to ensure supplier practices and their products meet the Group's standards. The management of the Group will also review the procurement process, and the Group may shift to other suppliers to purchase materials or products if deficiencies in a supplier's environmental and social responsibility practices were identified and no improvement implemented as required.

During the Year, all the suppliers of the Group are governed by the aforesaid supplier management procedures, and the number of suppliers by region is as follows:

Distribution of Supplier	2022	2021
Total	828	255
By region		
Mainland China	824	248
Overseas	4	7

# Environmental, Social and Governance Report

## RESPONSIBLE OPERATING PRACTICES *(Continued)*

### Superior Quality

The Group attaches great importance to providing customers with high-quality and safe products, and strictly complies with laws and regulations in relation to quality, including but not limited to the Product Quality Law of The People's Republic of China and the Construction Law of The People's Republic of China.

As for the assembly, packaging and sales of self-manufactured discrete semiconductors, Dongguan Jia Jun has developed strict material specifications and implemented the Hazardous Substance Process Management System (IECQ QC080000:2017), on practicable basis, to ensure that hazardous substances are reduced or avoided in the production of products. Dongguan Jia Jun also regularly commissions third party testing agencies to evaluate the products it produces, covering the entire product life cycle from the research and development to customer sales and disposal of product waste, to ensure product quality meets specifications, international standards and applicable legal standards. In addition, Dongguan Jia Jun has obtained the ISO9001:2015 Quality Management System Certification and IATF16949 : 2016 Automotive Quality Management System Certification to ensure customers' access to quality products and services.

In addition, when undertaking the communication network and intelligent system construction business, Guangzhou Weaving adopts strict quality control in the whole process of projects, including random inspection of construction quality during the project inception, construction and completion, as well as the implementation of safety production and safety management objectives. Upon the completion of a project, Guangzhou Weaving also has a warranty period to ensure customers' satisfaction. Guangzhou Weaving has also obtained the ISO9001:2015 Quality Management System Certification.

In course of business, the Group strictly prohibits the staff from deceiving consumers by any false or misleading marketing methods, and insists on good faith and advocates fair competition. The Group attaches great importance to the relationship between customers and the Group and appreciates comments from customers on our products or services. We continue to improve the relevant customer service control procedures and sort out, reply and follow up the feedbacks and complaints from customers and make improvement in a timely manner, in order to enhance the quality of our products, services and management.

During the Year, the Group had not sold or shipped products that needed to be recalled for safety and health reasons. In addition, the Group received one (2021: three) product-related complaints and promptly arranged for the return of the product for the customer, striving to provide high quality services and experiences to the customers.

### Intellectual Property Rights and Privacy Protection

The Group attaches great importance to protecting intellectual property and customer privacy, and strictly abides by intellectual property-related laws and regulations, including but not limited to the Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China, the Copyright Law of the People's Republic of China and the Intellectual Property Laws of Hong Kong. In order to protect intellectual property of customers, the Group will only legitimately employ their patents, trademarks and technologies after obtaining their authorisation. We also organise regular trainings related to intellectual property for our employees in a view to raise their awareness of intellectual property protection.

# Environmental, Social and Governance Report

## RESPONSIBLE OPERATING PRACTICES *(Continued)*

### Intellectual Property Rights and Privacy Protection *(Continued)*

In an attempt to protect privacy of customers, we not only enter confidentiality agreements with employees according to their positions, but also strengthen internal information management so as to prevent any forms of information leakage related to the confidential information of the Group or other commercial secrets. In addition, the Group will also enter into a confidentiality agreement with the cooperating companies, which prohibits both parties from disclosing trade secrets, technical secrets, specific product information, customer names, contact information, technology and data to protect the privacy of customers and the Group.

### Anti-corruption

Conducting business with integrity is one of the core values underlying the Group's business operations, the Group believes an effective anti-corruption mechanism is the cornerstone for its sustainable growth and strictly complies with anti-corruption related laws and regulations, including but not limited to the Criminal Law of the People's Republic of China and the Prevention of Bribery Ordinance in Hong Kong. Adhering to the principle of "enhancing the awareness of integrity and zero tolerance for corruption", the Group has provided anti-corruption training and circulated clear work ethics for employees in various departments which strictly prohibit bribery, extortion, fraud, money laundering and other wrongdoings, including gambling and personal loans with persons having business relationships with the Group, misappropriation of the Group's assets, inappropriate charitable donation or sponsorship, unlawful solicitation of business or preferential treatment, provision or acceptance of unreasonable gifts, entertainments or other improper benefits, etc.

The Group also requires its employees to declare any interests in the Group's business partners, suppliers and advisers that may conflict with the Group's business interests. Employees are required to comply strictly with applicable anti-corruption laws and there is a term under the Group's standard employment contract that legal non-compliance will constitute a ground of termination of employment. At the same time, the Group requests its suppliers and business partners to abide by the relevant local anti-corruption laws and regulations. In order to prevent external corruption, the Group issued an anti-corruption open letter to suppliers and business partners, and requested recipients to ensure that they would comply with the Group's anti-corruption regulations throughout the course of cooperation. During the Year, the Group approved and adopted a whistleblowing policy to encourage its employees, customers and suppliers to raise concerns about possible misconduct, malpractice or impropriety in any matter relating to the Group. The Group is committed to ensuring that whistleblowers disclose relevant information through confidential channels and that their identities are kept confidential. We deal with reports and conduct investigations accordingly in a prudent and serious manner to ensure that whistleblowers' concerns are taken seriously and treated fairly.

During the Year, the Group did not receive any complaint or notification from governmental authorities regarding non-compliance of the Group or its employees with anti-corruption laws referred to above.

## CARE FOR COMMUNITY

While actively developing our business, the Group is also committed to giving back to the community by actively participating in community building responsibilities, caring and serving the disadvantaged groups and promoting social development. During the Year, we continued to actively support local social welfare organisations to strive to fulfill our corporate public welfare responsibilities and actively serve the community. Guangzhou Weaving assisted in organising epidemic prevention activities in communities in Yuexiu District, Guangzhou, including epidemic prevention and nucleic acid testing in communities, epidemic prevention publicity on vaccination and promotion of Cantonese Residence Code (粵居碼), so as to develop an anti-epidemic shield. For example, TD Enterprises donated HK\$30,000 to sponsor the trainees of Fu Hong Society to participate in a 12-session visual arts course to develop their potential.

# Environmental, Social and Governance Report

## THE ESG REPORTING GUIDE CONTENT INDEX

ESG Indicator	Description	Section	Page No.
<b>ENVIRONMENT</b>			
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 nonhazardous wastes.	Environmental Protection <ul style="list-style-type: none"> <li>Greenhouse Gas and Energy Management</li> <li>Water Resources and Wastewater Management</li> <li>Waste Management</li> <li>Pollution Management</li> </ul>	48-54
KPI A1.1	The types of emissions and respective emissions data.	Environmental Protection <ul style="list-style-type: none"> <li>Pollution Management</li> </ul>	54
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection <ul style="list-style-type: none"> <li>Greenhouse Gas and Energy Management</li> </ul>	48
KPI A1.3	Total hazardous waste produced (in kg) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection <ul style="list-style-type: none"> <li>Waste Management</li> </ul>	53
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection <ul style="list-style-type: none"> <li>Waste Management</li> </ul>	53
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Environmental Protection <ul style="list-style-type: none"> <li>Greenhouse Gas and Energy Management</li> <li>Water Resources and Wastewater Management</li> </ul>	48-51

# Environmental, Social and Governance Report

ESG Indicator	Description	Section	Page No.
KPI A1.6	Description of how hazardous and nonhazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Environmental Protection <ul style="list-style-type: none"> <li>Waste Management</li> </ul>	52
Aspect A2: Use of Resources	General Disclosures Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Protection <ul style="list-style-type: none"> <li>Greenhouse Gas and Energy Management</li> <li>Water Resources and Wastewater Management</li> <li>Packaging Materials</li> </ul>	50-51, 55
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).	Environmental Protection <ul style="list-style-type: none"> <li>Greenhouse Gas and Energy Management</li> </ul>	50
KPI A2.2	Water consumption in total and intensity e.g. per unit of production volume, per facility).	Environmental Protection <ul style="list-style-type: none"> <li>Water Resources and Wastewater Management</li> </ul>	51
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Environmental Protection <ul style="list-style-type: none"> <li>Greenhouse Gas and Energy Management</li> </ul>	50

## Environmental, Social and Governance Report

ESG Indicator	Description	Section	Page No.
KPI A2.4	Description of whether there is any issue insourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Environmental Protection <ul style="list-style-type: none"> <li>Water Resources and Wastewater Management</li> </ul>	51
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Environmental Protection <ul style="list-style-type: none"> <li>Packaging Materials</li> </ul>	55
Aspect A3:The Environment and Natural Resources	General Disclosures Policies on minimising the issuers' significant impact on the environment and natural resources.	Environmental Protection <ul style="list-style-type: none"> <li>Green Operation Philosophy</li> </ul>	47
KPI A3.1	Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Protection <ul style="list-style-type: none"> <li>Green Operation Philosophy</li> </ul>	47
Aspect A4:Climate Change	General Disclosures Policies on identifying and mitigating significant climate-related issues that have had and may have an impact on the issuer.	Environmental Protection <ul style="list-style-type: none"> <li>Greenhouse Gas and Energy Management</li> </ul>	48-49
KPI A4.1	Description of significant climate-related issues that have had and may have an impact on the issuer, and the actions taken to manage them.	Environmental Protection <ul style="list-style-type: none"> <li>Greenhouse Gas and Energy Management</li> </ul>	48-49

# Environmental, Social and Governance Report

ESG Indicator	Description	Section	Page No.
<b>Social</b>			
Employment and Labour Practices			
Aspect B1: Employment	<p>General Disclosures Information on:</p> <p>(a) the policies; and</p> <p>(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.</p>	<p>Employment and Labour Practices</p> <ul style="list-style-type: none"> <li>Working Conditions and Welfare</li> <li>Anti-discrimination, Diversity and Inclusion</li> </ul>	58,60
KPI B1.1	Total workforce by gender, employment type (full-time or part-time), age group and geographical region.	<p>Employment and Labour Practices</p> <ul style="list-style-type: none"> <li>Anti-discrimination, Diversity and Inclusion</li> </ul>	61
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	<p>Employment and Labour Practices</p> <ul style="list-style-type: none"> <li>Anti-discrimination, Diversity and Inclusion</li> </ul>	62
Aspect B2: Health and Safety	<p>General Disclosures Information on:</p> <p>(a) the policies; and</p> <p>(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.</p>	<p>Employment and Labour Practices</p> <ul style="list-style-type: none"> <li>Occupational Health and Safety</li> </ul>	56-57

# Environmental, Social and Governance Report

ESG Indicator	Description	Section	Page No.
KPI B2.1	Number and rate of work-related fatalities in each of the past three years (including the reporting year).	Employment and Labour Practices <ul style="list-style-type: none"> <li>Occupational Health and Safety</li> </ul>	57
KPI B2.2	Lost days due to work injury.	Employment and Labour Practices <ul style="list-style-type: none"> <li>Occupational Health and Safety</li> </ul>	57
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Employment and Labour Practices <ul style="list-style-type: none"> <li>Occupational Health and Safety</li> </ul>	56-57
Aspect B3: Development and Training	General Disclosures Policies on improving employees' knowledge and skills for discharging duties at work; and description of training activities.	Employment and Labour Practices <ul style="list-style-type: none"> <li>Vocational Training and Development</li> </ul>	59-60
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Employment and Labour Practices <ul style="list-style-type: none"> <li>Vocational Training and Development</li> </ul>	60
KPI B3.2	The average training hours completed per employee by gender and employee category.	Employment and Labour Practices <ul style="list-style-type: none"> <li>Vocational Training and Development</li> </ul>	60
Aspect B4: Labour Standards	General Disclosures Information on: <ol style="list-style-type: none"> <li>the policies; and</li> <li>compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour.</li> </ol>	Employment and Labour Practices <ul style="list-style-type: none"> <li>Anti-child and Forced Labour</li> </ul>	62

# Environmental, Social and Governance Report

ESG Indicator	Description	Section	Page No.
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employment and Labour Practices <ul style="list-style-type: none"> <li>Anti-child and Forced Labour</li> </ul>	62
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Employment and Labour Practices <ul style="list-style-type: none"> <li>Anti-child and Forced Labour</li> </ul>	62
<b>Operating Practices</b>			
Aspect B5: Supply Chain Management	General Disclosures Policies on managing environmental and social risks of the supply chain.	Responsible Operating Practices <ul style="list-style-type: none"> <li>Responsible Procurement</li> </ul>	62-63
KPI B5.1	Number of suppliers by geographical region.	Responsible Operating Practices <ul style="list-style-type: none"> <li>Responsible Procurement</li> </ul>	63
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Responsible Operating Practices <ul style="list-style-type: none"> <li>Responsible Procurement</li> </ul>	62-63
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Responsible Operating Practices <ul style="list-style-type: none"> <li>Responsible Procurement</li> </ul>	62-63
KPI B5.4	Description of practices used to promote environmentally preferable products and service when selecting suppliers, and how they are implemented and monitored.	Responsible Operating Practices <ul style="list-style-type: none"> <li>Responsible Procurement</li> </ul>	62-63

# Environmental, Social and Governance Report

ESG Indicator	Description	Section	Page No.
Aspect B6: Product Responsibility	<p>General Disclosures Information on:</p> <p>(a) the policies; and</p> <p>(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.</p>	<p>Responsible Operating Practices</p> <ul style="list-style-type: none"> <li>Superior Quality</li> <li>Intellectual Property Rights and Privacy Protection</li> </ul>	64-65
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	<p>Responsible Operating Practices</p> <ul style="list-style-type: none"> <li>Superior Quality</li> </ul>	64
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	<p>Responsible Operating Practices</p> <ul style="list-style-type: none"> <li>Superior Quality</li> </ul>	64
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	<p>Responsible Operating Practices</p> <ul style="list-style-type: none"> <li>Intellectual Property Rights and Privacy Protection</li> </ul>	64-65
KPI B6.4	Description of quality assurance process and recall procedures.	<p>Responsible Operating Practices</p> <ul style="list-style-type: none"> <li>Superior Quality</li> </ul>	64
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	<p>Responsible Operating Practices</p> <ul style="list-style-type: none"> <li>Intellectual Property Rights and Privacy Protection</li> </ul>	64-65

# Environmental, Social and Governance Report

ESG Indicator	Description	Section	Page No.
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.	Responsible Operating Practices • Anti-corruption	65
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.	Responsible Operating Practices • Anti-corruption	65
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Responsible Operating Practices • Anti-corruption	65
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Responsible Operating Practices • Anti-corruption	65
<b>Community</b>			
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.	Care for Community	65
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Care for Community	65
KPI B8.2	Resources contributed (e.g. money or time) to the focus Area.	Care for Community	65

# Independent Auditor's Report



SHINEWING (HK) CPA Limited  
17/F, Chubb Tower, Windsor House,  
311 Gloucester Road,  
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司  
香港銅鑼灣告士打道311號  
皇室大廈安達人壽大樓17樓

## TO THE SHAREHOLDERS OF BRAINHOLE TECHNOLOGY LIMITED

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

### OPINION

We have audited the consolidated financial statements of Brainhole Technology Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 81 to 169, 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, consolidated statement of changes in equity and 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 (the “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 (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are the 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.

Key audit matters identified in our audit are summarised as follow:

- Revenue recognition on broadband infrastructure construction services;
- Impairment of plant and equipment; and
- Provision of expected credit loss for trade receivables.

## KEY AUDIT MATTERS *(Continued)*

### Revenue recognition on broadband infrastructure construction services

Refer to note 7 to the consolidated financial statements and the relevant accounting policies.

The key audit matter	How the matter was addressed in our audit
<p>For the year ended 31 December 2022, revenue from broadband infrastructure construction services was approximately HK\$19,142,000. The Group has recognised the revenue from broadband infrastructure construction services overtime by applying the output method with reference to the certificates issued by the customers. Significant judgements and estimates have been made by the management when measuring progress towards complete satisfaction of a performance obligation of contracts at the end of the reporting period.</p> <p>We have identified the revenue recognition on broadband infrastructure construction services as a key audit matter in view of the measurement of the progress and outcome of contracts involved significant judgements and estimates, which may be subject to the management bias.</p>	<p>Our procedures were designed to assess and challenge the management judgements and estimates used in the determination of the progress of contracts.</p> <p>We have assessed and challenged the appropriateness of the revenue recognition policy adopted by the management. We tested the amount of revenue recognised through inspecting the relevant supporting documents (such as contracts, completion certificates issued by the customers etc.) and recalculating the percentage on the progress towards complete satisfaction of a performance obligation, on a sample basis.</p> <p>In addition, we also assessed the management judgements and estimates on the progress of contracts when progress certificate was not available and critically challenged their basis of estimation of the total contract revenue.</p>

# Independent Auditor's Report

## KEY AUDIT MATTERS *(Continued)*

### Impairment of plant and equipment

Refer to note 16 to the consolidated financial statements and the relevant accounting policies.

The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2022, the carrying amount of the Group's plant and equipment (net of impairment loss) was approximately HK\$49,259,000.</p> <p>Impairment loss recognised in respect of plant and equipment of approximately HK\$22,529,000 has been recognised for the year ended 31 December 2022.</p> <p>We have identified the impairment of plant and equipment as a key audit matter because the total carrying amount of plant and equipment is significant to the consolidated financial statements and the impairment of plant and equipment involved significant judgments, estimates and uncertainty which may be subject to the management bias and uncontrollable.</p>	<p>Our audit procedures were designed to obtain, understand and evaluate management's impairment assessment process.</p> <p>We have tested the mathematical accuracy of the value in use calculation of the cash flow forecast and assessed the appropriateness of the methodology used by the management and valuer.</p> <p>In addition, we have tested the key assumptions used in the cash flow forecast, including revenue growth rate and terminal growth rate, based on other available market data in the self-manufactured semiconductors industry and the broadband infrastructure construction taking into account the historical performance of the Group and corroborating with the development plan based on our discussion with the management.</p> <p>We have also tested the discount rate by benchmarking them to the rates used by similar companies in the market.</p>

## KEY AUDIT MATTERS (Continued)

### Provision of expected credit loss ("ECL") for trade receivables

Refer to note 21 to the consolidated financial statements and the relevant accounting policies.

The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2022, the carrying amount of the Group's trade receivables was approximately HK\$74,383,000 (net of allowance for impairment loss of HK\$16,700,000).</p> <p>Impairment loss recognised in respect of trade receivables of approximately HK\$9,631,000 has been recognised for the year ended 31 December 2022.</p> <p>We have identified provision of the ECL for trade receivables as a key audit matter because the total carrying amount of trade receivables are significant to the consolidated financial statements and the provision of ECL involves significant judgements and estimates.</p>	<p>Our audit procedures were designed to assess and challenge the management estimation on ECL including the internal credit ratings determined by the management, the credit risk of the debtors and days past due as groupings of various debtors that have similar loss patterns and challenge the reasonableness and selection of forward-looking information used in the calculation of ECL.</p> <p>We also reviewed the provision matrix based on the Group's historical observed default rates that forward-looking information are considered.</p>

# Independent Auditor's Report

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 OF THE COMPANY 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 of the Company 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 of the Company 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 of the Company 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.

# Independent Auditor's Report

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

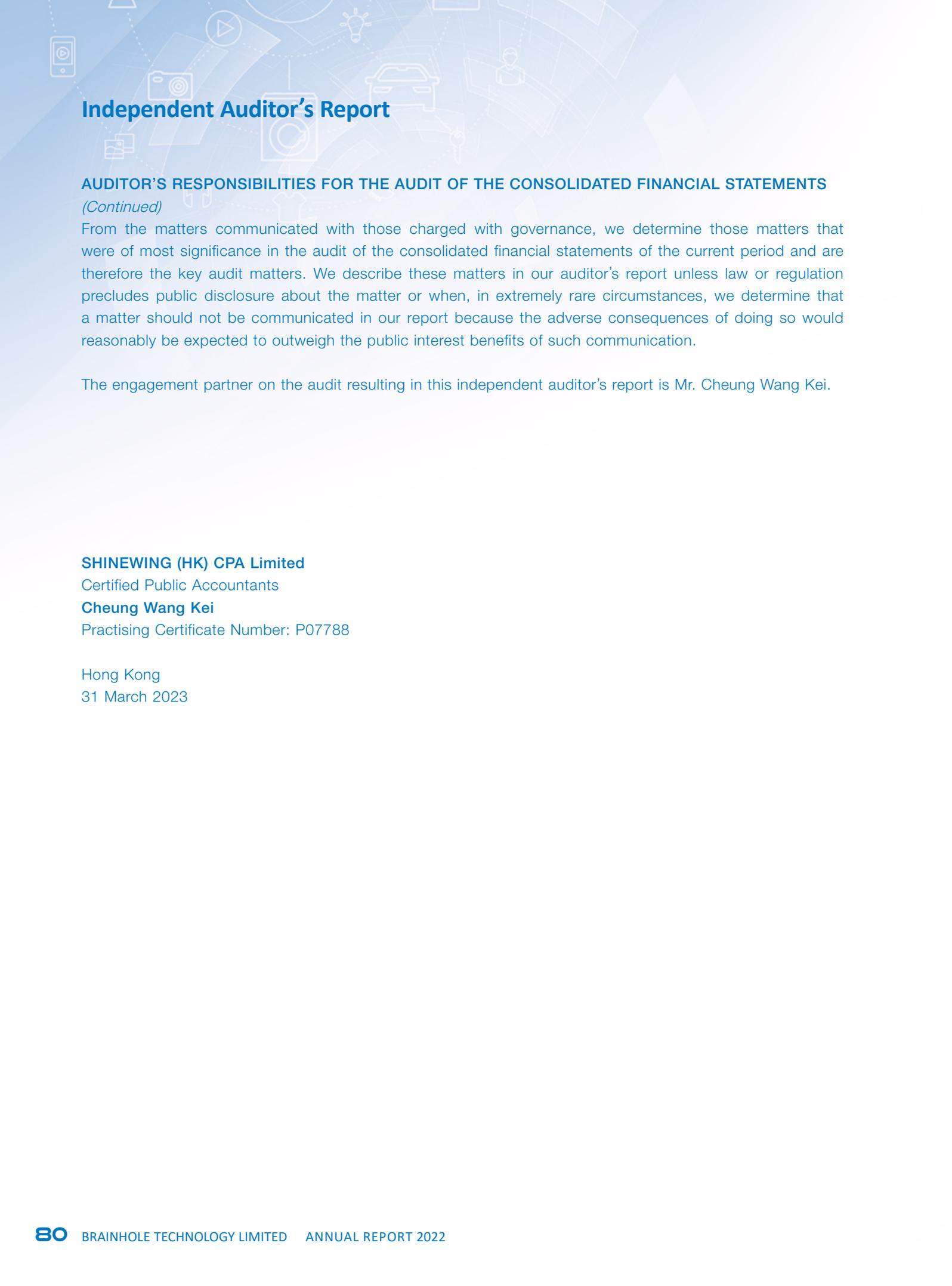
*(Continued)*

As part of an audit in accordance with HKSAAs, we exercise professional judgement 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 of the Company.
- Conclude on the appropriateness of the Company's 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.



## Independent Auditor's Report

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

*(Continued)*

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.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Cheung Wang Kei.

#### **SHINEWING (HK) CPA Limited**

Certified Public Accountants

#### **Cheung Wang Kei**

Practising Certificate Number: P07788

Hong Kong

31 March 2023

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	7	263,566	321,570
Cost of sales		(215,027)	(267,457)
Gross profit		48,539	54,113
Other income	8	5,160	7,163
Other losses	9	(10,621)	–
Selling and distribution costs		(6,805)	(8,430)
Administrative expenses		(63,797)	(80,837)
Impairment loss on plant and equipment		(22,529)	(15,028)
Finance costs	10	(11,676)	(8,179)
Loss before tax		(61,729)	(51,198)
Income tax credit (expense)	11	4,117	(354)
<b>Loss for the year</b>	12	<b>(57,612)</b>	<b>(51,552)</b>
<b>Other comprehensive (expense) income for the year</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		(7,269)	3,722
Total comprehensive expense for the year		(64,881)	(47,830)
Loss per share			
– Basic and diluted (HK cents)	14	(7.20)	(6.44)

# Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
<b>Non-current assets</b>			
Plant and equipment	16	49,259	93,306
Right-of-use assets	17	2,500	4,069
Intangible assets	19	1,010	1,239
Deferred tax assets	30	17,670	14,264
Prepayment for plant and equipment		1,770	1,204
		<b>72,209</b>	<b>114,082</b>
<b>Current assets</b>			
Inventories	20	44,888	49,643
Finance lease receivable	18	–	491
Trade and other receivables	21	94,982	132,506
Contract assets	22	4,946	1,844
Amounts due from related companies	29	8,470	11,508
Tax recoverable		–	911
Digital assets	23	11,189	–
Financial assets at fair value through profit or loss	24	70,582	–
Bank balances and cash	25	26,151	42,644
		<b>261,208</b>	<b>239,547</b>
<b>Current liabilities</b>			
Trade and other payables	26	76,125	120,183
Contract liabilities	27	4,971	–
Bank borrowings	28	7,277	–
Lease liabilities	17	1,399	2,340
Deferred income	31	470	796
Loan from an immediate holding company	32	473	–
Loans from related companies	33	59,625	–
Income tax payables		34	–
		<b>150,374</b>	<b>123,319</b>
<b>Net current assets</b>		<b>110,834</b>	<b>116,228</b>
<b>Total assets less current liabilities</b>		<b>183,043</b>	<b>230,310</b>

# Consolidated Statement of Financial Position

As at 31 December 2022

		2022	2021
	Notes	HK\$'000	HK\$'000
<b>Non-current liabilities</b>			
Lease liabilities	17	1,407	2,480
Deferred tax liability	30	272	313
Deferred income	31	2,524	5,086
Loan from an immediate holding company	32	–	25,100
Loans from related companies	33	–	55,007
Loan from ultimate controlling party	34	77,261	–
		<b>81,464</b>	<b>87,986</b>
		<b>101,579</b>	<b>142,324</b>
<b>Capital and reserves</b>			
Share capital	35	8,000	8,000
Reserves		93,579	134,324
		<b>101,579</b>	<b>142,324</b>

The consolidated financial statements on pages 81 to 169 were approved and authorised for issue by the board of directors on 31 March 2023 and are signed on its behalf by:

**Mr. Zhang Liang Johnson**  
Director

**Ms. Wan Duo**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital HK\$'000 (note 35(a))	Share premium HK\$'000	Statutory reserve HK\$'000 (note 35(b)(i))	Capital reserve HK\$'000 (note 35(b)(iii))	Translation reserve HK\$'000	Merger reserve HK\$'000 (note 35(b)(iii))	Retained profits HK\$'000	Total HK\$'000
At 1 January 2021	8,000	104,098	8,282	2,172	(7,725)	12,778	59,033	186,638
Loss for the year	-	-	-	-	-	-	(51,552)	(51,552)
Other comprehensive income for the year:								
Exchange difference arising on translation of foreign operations	-	-	-	-	3,722	-	-	3,722
Total comprehensive income (expense) for the year	-	-	-	-	3,722	-	(51,552)	(47,830)
Deemed contribution from an immediate holding company (note 32)	-	-	-	3,516	-	-	-	3,516
Transfer to statutory reserve	-	-	177	-	-	-	(177)	-
At 31 December 2021	8,000	104,098	8,459	5,688	(4,003)	12,778	7,304	142,324

	Share capital HK\$'000 (note 35(a))	Share premium HK\$'000	Statutory reserve HK\$'000 (note 35(b)(i))	Capital reserve HK\$'000 (note 35(b)(iii))	Translation reserve HK\$'000	Merger reserve HK\$'000 (note 35(b)(iii))	Retained profits (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2022	8,000	104,098	8,459	5,688	(4,003)	12,778	7,304	142,324
Loss for the year	-	-	-	-	-	-	(57,612)	(57,612)
Other comprehensive expense for the year:								
Exchange difference arising on translation of foreign operations	-	-	-	-	(7,269)	-	-	(7,269)
Total comprehensive expense for the year	-	-	-	-	(7,269)	-	(57,612)	(64,881)
Deemed contribution from an immediate holding company, related companies and ultimate controlling party (note 32, 33 and 34)	-	-	-	24,136	-	-	-	24,136
Transfer to statutory reserve	-	-	237	-	-	-	(237)	-
At 31 December 2022	8,000	104,098	8,696	29,824	(11,272)	12,778	(50,545)	101,579

## Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 HK\$'000	2021 HK\$'000
OPERATING ACTIVITIES		
Loss before tax	(61,729)	(51,198)
Adjustments for:		
Amortisation of intangible assets	183	181
Amortisation of deferred income	(2,474)	(1,609)
Bank interest income	(138)	(547)
Depreciation of plant and equipment	12,300	19,765
Depreciation of right-of-use assets	3,109	3,455
Finance costs	11,676	8,179
Interest income on finance lease	(34)	(94)
Government grants	(1,123)	(1,298)
Write-off of plant and equipment	15	49
Write-off of intangible assets	–	1,058
Write-off of other receivables	–	367
Gain on disposal of plant and equipment	(1,158)	(2,599)
Gain on early termination of a lease	(229)	–
Gain on disposal of intangible assets	–	(90)
Impairment loss on contract assets	143	410
Impairment loss on trade receivables, net	9,631	5,959
Impairment loss on plant and equipment	22,529	15,028
Impairment loss recognised on amounts due from related companies	974	2,933
Changes in fair value of financial assets at fair value through profit or loss	9,882	–
Changes in fair value of digital assets	739	–
Loss on disposal of non-current assets classified as held for sale	–	766
Operating cash flows before movements in working capital	4,296	715
Decrease (increase) in inventories	569	(21,405)
Decrease in finance lease receivable	499	519
Decrease (increase) in trade and other receivables	12,957	(30,019)
Increase in contract assets	(3,516)	(719)
Decrease (increase) in amounts due from related companies	1,162	(4,980)
Increase in digital assets	(11,928)	–
Increase in financial assets at fair value through profit or loss	(80,464)	–
Decrease (increase) in trade and other payables	(34,851)	55,760
Increase in contract liabilities	4,971	–

# Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 HK\$'000	2021 HK\$'000
Cash used in operations	(106,305)	(129)
Hong Kong profits tax paid	(18)	–
PRC enterprise income tax refund (paid), net	241	(406)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(106,082)</b>	<b>(535)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of plant and equipment	(6,063)	(4,383)
Prepayment for plant and equipment	(1,780)	(39)
Bank interest received	138	547
Proceeds from disposal of plant and equipment	19,150	–
Proceeds from disposal of intangible assets	–	90
Proceeds from disposal of non-current assets classified as held for sale	–	5,260
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>11,445</b>	<b>1,475</b>
<b>FINANCING ACTIVITIES</b>		
Repayment to an immediate holding company	(28,432)	(16,000)
Repayment to related companies	(86,017)	(17,378)
Government grants received	1,123	2,975
Repayment of lease liabilities	(3,510)	(3,795)
New bank borrowings raised	7,534	–
New loans obtained from an immediate holding company	1,298	3,200
New loans obtained from related companies	85,474	–
New loans obtained from ultimate controlling party	100,500	–
Interest expenses paid	(1,437)	–
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>76,533</b>	<b>(30,998)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(18,104)</b>	<b>(30,058)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>42,644</b>	<b>74,150</b>
Effect of foreign exchange rate changes	1,611	(1,448)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR REPRESENTED BY BANK BALANCES AND CASH</b>	<b>26,151</b>	<b>42,644</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 1. GENERAL INFORMATION

Brainhole Technology Limited was incorporated in the Cayman Islands on 10 September 2014 as an exempted company with limited liability under the Cayman Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its issued shares had been listed on The Hong Kong Stock Exchange Limited (the “Stock Exchange”) since 2017.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The address of the principal place of business of the Company is Suites 1801-03, 18/F., One Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong. Its immediate holding company is Yoho Bravo Limited (“Yoho”), a company incorporated in the British Virgin Islands (the “BVI”) with limited liability and its ultimate controlling party is Mr. Zhang Liang Johnson (“Mr. Zhang”).

The Company is principally engaged in investment holding and the principal activities of its subsidiaries (together with the Company collectively referred to as the “Group”) are set out in note 42.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”)

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for the Group’s financial year beginning 1 January 2022:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework
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 cycle

The application of the amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (Continued)

### New and amendments to HKFRSs issued but 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 <sup>1</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause <sup>2</sup>
Amendments to HKAS 1	Non-current Liabilities with Covenants <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (Continued)

**New and amendments to HKFRSs issued but 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); Amendments to HKAS 1 – Non-current Liabilities with Covenants***

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current issued in 2020 (the “2020 Amendments”) clarify the requirements for classifying liabilities as current or non-current. Amendments to HKAS 1 Non-current Liabilities with Covenants issued in 2022 (the “2022 Amendments”) further clarify the requirements for classification of non-current liabilities with covenants. The amendments specify that if an entity’s right to defer settlement of a liability is subject to the entity complying with future covenants, the entity has a right to defer settlement of the liability even if it does not comply with those covenants at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered as settlement of a liability.

The amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within twelve months.

The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. However, an entity that applies the 2020 Amendments early is also required to apply the 2022 Amendments, and vice versa.

Based on the Group’s outstanding liabilities as at 31 December 2022, the application of the amendments will not result in change in the classification of the Group’s liabilities.

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

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

The supporting paragraphs in HKAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) *(Continued)*

### **New and amendments to HKFRSs issued but not yet effective** *(Continued)*

#### ***Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies*** *(Continued)*

Guidance and examples were provided to explain and demonstrate the application of the “four-step materiality process” described in HKFRS Practice Statement 2. 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.

#### ***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 amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period, with earlier application permitted.

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

#### ***Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction***

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to HK\$2,500,000 and HK\$2,806,000 respectively. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements as the net temporary differences relating to relevant assets and liabilities are insignificant.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and digital assets that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The significant accounting policies are set out below.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary’s financial statements in preparing the consolidated financial statements to ensure conformity with the Group’s accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group’s returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of a subsidiary are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

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

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

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes discounts and sales related taxes.

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

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. 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 goods or services to a customer for which the Group has received consideration from the customer.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Revenue from contracts with customers** *(Continued)*

#### **Contract assets and contract liabilities** *(Continued)*

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from the following major sources:

#### ***Sales of goods***

Revenue from sales of goods (i.e. sales of electronic goods and electrical parts and components manufactured by the Group or sourced from third-party suppliers) is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of goods).

#### ***Promotion of broadband and provision of smart domain solution services***

Commission income from promotion of broadband and revenue from provision of smart domain solution services are recognised at a point in time when the services are performed by the Group.

#### ***Provision of broadband infrastructure construction services***

The Group provides broadband infrastructure construction services under contract with customers. Under the terms of the contracts, the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Revenue from provision of broadband infrastructure construction services is therefore recognised over time.

The Group also generally agrees to a one to two years retention period for 5% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

#### ***Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation (Output method)***

Revenue from provision of broadband infrastructure construction services is recognised over time.

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leasing

#### *Definition of a lease*

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

#### *The Group as lessee*

For contracts entered into or modified on or after the date of initial application of HKFRS 16, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

#### *Lease liabilities*

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leasing (Continued)

#### The Group as lessee (Continued)

##### Lease liabilities (Continued)

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

##### Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leasing (Continued)

#### *The Group as lessee (Continued)*

##### *Lease modification*

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

##### *The Group as lessor*

The Group enters into lease agreement as a lessor with respect to its broadband infrastructures and software. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

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

Amount due from lessee under finance lease is recognised as receivable at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the lease.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Borrowing costs**

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

### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### **Retirement benefits costs**

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the “MPF Scheme”) are recognised as an expense when employees have rendered service entitling them to the contributions.

### **Short-term employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle current tax liabilities and assets on a net basis.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition due to application of the initial recognition exemption.

Current and deferred tax are recognised in profit or loss.

### Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Properties in the course of construction for production or supply are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including cost of testing whether the related assets are functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets

#### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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 assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

#### *Research and development expenditure*

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

### Digital assets

Digital assets are held mainly for the purposes of trading.

Digital assets are held in the Group's digital asset wallets and are prefunded. Since the Group actively trades digital assets, purchasing them with a view to their resale in the near future, and generating a profit from fluctuations in the price, the Group applies the guidance in HKAS 2 for commodity broker-traders and measures the digital assets at fair value less costs to sell. The Group considers there are no significant "costs to sell" digital assets and hence measurement of digital assets is based on their fair values with changes in fair values recognised in profit or loss in the period of the changes.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value of inventories represents the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

### Cash and cash equivalents

In the consolidated statement of financial position, cash and bank balances comprise cash (i.e. cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

### Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

### Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 8).

##### Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other losses" line item. Fair value is determined in the manner described in note 6.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Financial assets at FVTPL (Continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

##### *Impairment of financial assets and other items subject to impairment assessment under HKFRS 9*

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost, finance lease receivables and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, contract assets, finance lease receivable and amounts due from related companies (trade-nature). Except for credit-impaired balances, the ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

##### *Significant increase in credit risk*

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)*

*Significant increase in credit risk (Continued)*

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

- an actual or expected significant deterioration in the financial instrument's external or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

#### Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)

##### Definition of default

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

- when there is a breach of financial covenants by the debtor; 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).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

##### Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

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

##### Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor 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, whichever occurs sooner. 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

#### *Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (Continued)*

##### Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 Lease.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

#### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

### **Financial liabilities and equity instruments**

#### *Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial liabilities and equity instruments (Continued)

##### Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

##### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities is 1) contingent consideration of an acquirer in a business combination to which HKFRS 3 Definition of a Business applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the "finance costs" line item in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### **Financial liabilities and equity instruments** *(Continued)*

##### *Financial liabilities (Continued)*

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

##### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### **Impairment losses on plant and equipment, right-of-use assets and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment, right-of-use assets and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Impairment losses on plant and equipment, right-of-use assets and intangible assets** *(Continued)*

If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised as an expense immediately in profit or loss.

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

### **Fair value measurement**

When measuring fair value except for the Group's leasing transactions, net realisable value of inventories and value in use of plant and equipment, right-of-use assets and intangible assets with finite useful life for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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 on-going 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.

### **Critical judgement in applying accounting policies**

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

### ***Accounting of digital assets transactions and balances***

HKFRSs do not specifically address accounting for digital assets. Accordingly, for the preparation of the Group's consolidated financial statements, management needs to apply judgement in determining appropriate accounting policies based on the facts and circumstances associated with the Group's digital assets. Given the business model of the Group, digital assets are measured at fair value less costs to sell on the consolidated statement of financial position. Furthermore, in determining fair values, management needs to apply judgement to identify the relevant available markets, and to consider accessibility to and activity within those markets in order to identify the principal digital asset markets for the Group. The carrying amount of digital assets at 31 December 2022 was approximately HK\$11,189,000 (2021: nil).

### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### ***Revenue recognition on broadband infrastructure construction services***

The Group recognises contract revenue over time using an output method. The revenue recognition on broadband infrastructure construction services is dependent on management's judgements and estimation of the satisfaction of performance obligation, by reference to the progress certificate issued by the customers. Notwithstanding that the Group reviews and revises the judgements and estimates on contract progresses, the actual outcome of the contract in terms of its total revenue may be higher or lower than the estimates and this will affect the amount of revenue recognition.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

*(Continued)*

**Key sources of estimation uncertainty** *(Continued)*

### ***Income taxes***

As at 31 December 2022, a deferred tax asset of approximately HK\$17,670,000 (2021: HK\$14,264,000) in relation to deductible temporary difference has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on deductible temporary differences and tax losses of approximately HK\$2,880,000 and HK\$161,146,000 (2021: HK\$3,147,000 and HK\$138,206,000) respectively due to the unpredictability of future profit streams for certain subsidiaries. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

### ***Provision of ECL for trade receivables***

The impairment provisions for trade receivables are based on assumptions about ECL. Except for credit-impaired balances, the Group uses a provision matrix to calculate the ECL for trade receivables. The provision rates are based on internal credit ratings, the credit risk of the debtors and days past due as groupings of various debtors that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking information are considered. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2022, the carrying amount of trade receivables was approximately HK\$74,383,000 (2021: HK\$105,494,000), net of allowance of impairment loss of approximately HK\$16,700,000 (2021: HK\$8,060,000).

### ***Estimated impairment assessment of plant and equipment, right-of-use assets and intangible assets***

Plant and equipment, right-of-use assets and intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the assets belongs.

The future cash flow is estimated based on past performance and expectation for market development. As the current environment is uncertain, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainty. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections could materially affect the recoverable amounts.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

*(Continued)*

**Key sources of estimation uncertainty** *(Continued)*

***Estimated impairment assessment of plant and equipment, right-of-use assets and intangible assets*** *(Continued)*

As at 31 December 2022, the carrying amounts of plant and equipment, right-of-use assets and intangible assets were approximately HK\$49,259,000 (2021: HK\$93,306,000), HK\$2,500,000 (2021: HK\$4,069,000) and HK\$1,010,000 (2021: HK\$1,239,000). Details of the impairment of plant and equipment, right-of-use assets and intangible assets are disclosed in notes 16. Further details are given in relevant note.

***Estimated useful life of plant and equipment, right-of-use assets and intangible assets***

At the end of each reporting period, the directors of the Company review the estimated useful life of plant and equipment, right-of-use assets and intangible assets with finite useful life. The carrying amounts of plant and equipment, right-of-use assets and intangible assets with finite useful life as at 31 December 2022 were approximately HK\$44,528,000 (2021: HK\$86,117,000), HK\$2,500,000 (2021: HK\$4,069,000) and HK\$1,010,000 (2021: HK\$1,239,000). During the current year, the directors of the Company determined the useful lives of certain items are not required to be revised.

***Estimated allowance for inventories***

The management of the Group reviews an ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2022, the carrying amount of inventories was approximately HK\$44,888,000 (2021: HK\$49,643,000), no impairment loss of approximately was recognised for the year ended 31 December 2022 and 2021.

## 5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank borrowings, loan from an immediate holding company and loan from related companies and loan from ultimate controlling party, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends and new share issues. The directors of the Company will also consider the raise of borrowings as second source of capital.

The directors of the Company also endeavour to ensure the steady and reliable cash flows from the normal business operation.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2022 HK\$'000	2021 HK\$'000
<b>Financial assets</b>		
Financial assets at amortised cost	111,976	172,270
Financial assets at FVTPL	70,582	–
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	220,603	199,587

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related companies (trade-nature), financial assets at FVTPL, bank balances and cash, trade and other payables, bank borrowings, loan from an immediate holding company, loans from related companies and loan from ultimate controlling party. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### **Market risk**

##### (i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and loan from immediate holding company.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

The Group currently does not have interest rate hedging policy. However, the directors of the Company closely monitor its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

#### Sensitivity analysis

No sensitivity analysis is presented as the Group's exposure to interest rate is not significant.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

##### (ii) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 30% (2021: 36%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sales, whilst almost 94% (2021: 96%) of the Group's purchases is denominated in the group entity's respective functional currency.

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

	Assets		Liabilities	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States dollars ("USD")	86,924	29,498	4,218	2,668
Renminbi ("RMB")	57	96	-	-
	86,981	29,594	4,218	2,668

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company continuously monitor the related foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### **Market risk** (Continued)

##### (ii) *Currency risk* (Continued)

Sensitivity analysis

The Group is mainly exposed to fluctuation against foreign currencies USD and RMB.

The following table details the Group's sensitivity to a 5% (2021: 5%) increase and decrease in functional currency of respective group entities against the relevant foreign currencies. 5% (2021: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2021: 5%) change in foreign currency rates.

A positive number below indicates an increase in post-tax profit where the functional currency of respective group entities weaken by 5% (2021: 5%) against the relevant foreign currencies. For a 5% (2021: 5%) strengthening of the functional currency of respective group entities against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit and the balance would be negative.

	2022 HK\$'000	2021 HK\$'000
Effect on post-tax profit		
USD	3,453	1,120
RMB	2	4

##### (iii) *Other price risk*

The Group is exposed to price risk through its investments in listed equity securities measured at FVTPL and digital assets. The management manages these exposures by maintaining a portfolio of investments with different risks. In addition, the Group will consider hedging the risk exposure should the need arise.

#### **Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposures to equity and digital assets price risks at the end of the reporting period. For sensitivity analysis purpose, the sensitivity rate is 10% as a result of the volatile financial market.

If the prices of the respective equity securities had been 10% (2021: N/A) higher/lower, post-tax loss for the year ended 31 December 2022 would decrease/increase by HK\$5,894,000 (2021: N/A) as a result of the changes in fair value of financial assets at FVTPL.

If the prices of the respective digital assets had been 10% (2021: N/A) higher/lower, post-tax loss for the year ended 31 December 2022 would decrease/increase by HK\$934,000 (2021: N/A) as a result of the changes in fair value of digital assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

#### ***Credit risk***

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. As at 31 December 2022 and 2021, the Group's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from bank balances and cash, trade and other receivables, amounts due from related companies (trade-nature), finance lease receivable and contract assets. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade receivables, finance lease receivable, contract assets and amounts due from related companies (trade-nature), the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for credit-impaired customers and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For all other financial instruments, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. The Group considers that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### **Credit risk** (Continued)

##### *The Group's exposure to credit risk*

In order to minimise credit risk, the Group has tasked its operation management to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is drawn from the Group's own trading records to rate its customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Internal credit rating	Description	Trade receivables/ finance lease receivable/contract assets/amounts due from related companies (trade-nature)	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit impaired	12-month ECL
Medium risk	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit impaired	12-month ECL
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit impaired	Lifetime ECL – not credit impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The table below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk.

For the year ended 31 December 2022

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Net carrying amount HK\$'000
Trade receivables	Note	Lifetime ECL (simplified approach)	72,480	(3,381)	69,099
	Loss	Lifetime ECL (credit-impaired)	18,603	(13,319)	5,284
Other receivables	Low risk	12-month ECL	2,972	-	2,972
Contract assets	Note	Lifetime ECL (simplified approach)	4,836	(80)	4,756
	Loss	Lifetime ECL (credit-impaired)	633	(443)	190
Amounts due from related companies (trade-nature)	Note	Lifetime ECL (simplified approach)	12,133	(3,663)	8,470

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 6. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives and policies (Continued)

##### **Credit risk** (Continued)

*The Group's exposure to credit risk (Continued)*

For the year ended 31 December 2021

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK\$'000	Loss allowance HK\$'000	Net carrying amount HK\$'000
Trade receivables	Note	Lifetime ECL (simplified approach)	109,091	(4,602)	104,489
	Loss	Lifetime ECL (credit-impaired)	4,463	(3,458)	1,005
Other receivables	Low risk	12-month ECL	12,624	–	12,624
Finance lease receivable	Note	Lifetime ECL (simplified approach)	491	–	491
Contract assets	Note	Lifetime ECL (simplified approach)	1,749	(58)	1,691
	Loss	Lifetime ECL (credit-impaired)	516	(363)	153
Amounts due from related companies (trade-nature)	Note	Lifetime ECL (simplified approach)	14,483	(2,975)	11,508

*Note:* The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, grouped by internal credit rating and past due status.

The Group has concentration of credit risk as 43% (2021: 22%) of the total trade receivables as at 31 December 2022 was due from the Group's five largest customers. As at 31 December 2022, no trade receivables was due from the Group's largest customer (2021: 7%).

However, management considers the credit risk is under control since the management exercise due care in granting credits and reviews the recoverable amount of each balances at the end of each reporting period to ensure adequate impairment loss has been made for irrecoverable amount.

The Group's concentration of credit risk by geographical locations is mainly in the Korea and the PRC, which accounted for 4% and 69% respectively (2021: 6% and 71%) of the total trade receivables as at 31 December 2022.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Liquidity risk

As at 31 December 2022, the Group is exposed to liquidity risk as the Group incurred loss of approximately HK\$57,612,000 (2021: HK\$51,552,000). In the management of the liquidity risk, the Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and long term.

The directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period taking into account there is sufficient bank balances and cash.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities and lease 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 rate curve at the end of the reporting period.

	On demand or less than 1 year <i>HK\$'000</i>	1 to 2 years <i>HK\$'000</i>	3 to 5 years <i>HK\$'000</i>	Total Undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
<b>At 31 December 2022</b>					
Trade and other payables	75,967	–	–	75,967	75,967
Bank borrowings	7,277	–	–	7,277	7,277
Lease liabilities	1,482	873	582	2,937	2,806
Loan from an immediate holding company	491	–	–	491	473
Loans from related companies	59,625	–	–	59,625	59,625
Loan from ultimate controlling party	–	–	100,500	100,500	77,261
	144,842	873	101,082	246,797	223,409

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

	On demand or less than 1 year <i>HK\$'000</i>	1 to 2 years <i>HK\$'000</i>	3 to 5 years <i>HK\$'000</i>	Total Undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
<b>At 31 December 2021</b>					
Trade and other payables	119,480	–	–	119,480	119,480
Lease liabilities	2,562	1,629	977	5,168	4,820
Loan from an immediate holding company	–	25,873	2,500	28,373	25,100
Loans from related companies	–	38,814	24,000	62,814	55,007
	122,042	66,316	27,477	215,835	204,407

As at 31 December 2022, loan from a related company, which is unsecured and interest-free, with aggregate principal amount of approximately HK\$42,300,000 (2021: nil) that contain a repayment on demand clause are included in the “on demand or less than 1 year” time band in the above maturity analysis. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the related company will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such borrowings will be repaid in accordance with the scheduled repayment date set out in the loan agreement. At that time, the total principal cash outflows will amount to HK\$42,300,000 (2021: N/A).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 6. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments and other item that are measured at fair value at the end of each reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	2022			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Financial assets at FVTPL</b>				
Listed equity securities	70,582	–	–	70,582
<b>Other assets at FVTPL</b>				
Digital assets	11,189	–	–	11,189

There were no transfers between levels of fair value hierarchy in the current year.

### *Fair value of financial assets and other assets that are measured at fair value on a recurring basis*

The valuation techniques and inputs used in the fair value measurements of each financial instrument on a recurring basis are set out below:

Financial instruments and other items	Fair value hierarchy	Fair value as at		Valuation technique and key inputs
		2022 HK\$'000	2021 HK\$'000	
Listed equity securities	Level 1	70,582	–	Quoted bid prices in an active market
Digital assets	Level 1	11,189	–	Active price provided by the digital market

### *Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosure are required)*

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. REVENUE AND SEGMENT INFORMATION

Information reported to the board of directors, being the chief operating decision maker (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable segments are as follows:

- a) Manufacturing segment engages in selling of electronic goods and electrical parts and components manufactured by the Group.
- b) Trading segment engages in trading of electronic goods and electrical parts and components sourced from third-party suppliers.
- c) Broadband infrastructure and smart domain segment engages in the provision of broadband infrastructure construction services, promotion of broadband services, smart domain solution services and operating leases for broadband infrastructure.
- d) Strategic investments segment engages in trading of digital assets and listed equity securities.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the method used to distribute the products and/or the nature of production processes.

Despite that all of the Group’s products are of a similar nature, they are subject to different risks and returns. Accordingly, the Group’s operating activities are attributable to manufacturing, trading, broadband infrastructure and smart domain and strategic investments segments.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue represents revenue arising from the manufacturing and trading of electronic goods and electrical parts and components, provision of broadband infrastructure construction services, promotion of broadband services, smart domain solution services and operating leases for broadband infrastructure. An analysis of the Group's revenue for the year is as follows:

	2022 HK\$'000	2021 HK\$'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Manufacturing of electronic goods	122,762	129,479
Trading of electronic goods	93,178	91,742
Broadband infrastructure and smart domain:		
Broadband infrastructure construction services	19,142	54,245
Commission income from promotion of broadband services	13,533	13,741
Provision of smart domain solution services	10,095	27,158
	<b>258,710</b>	<b>316,365</b>
<b>Revenue from other sources</b>		
Broadband infrastructure and smart domain:		
Rental income from broadband infrastructure under operating lease		
– Lease payments that are fixed at a rate	4,856	5,205
	<b>263,566</b>	<b>321,570</b>

Disaggregation of revenue from contracts with customers by timing of recognition

	2022 HK\$'000	2021 HK\$'000
<b>Timing of revenue recognition</b>		
At a point in time	239,568	262,120
Over time	19,142	54,245
	<b>258,710</b>	<b>316,365</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at 31 December 2022 and 2021 and the expected timing of recognition are, as follow:

	2022 HK\$'000	2021 HK\$'000
Within one year	29,011	18,393
More than one year	24,751	16,317
	<b>53,762</b>	<b>34,710</b>

The above amounts represent revenue expected to be recognised in the future from broadband infrastructure construction services.

For other types of revenue, as those contracts are with an original expected duration of one year or less. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period.

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Manufacturing		Trading		Broadband infrastructure and smart domain		Strategic investments		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	122,762	129,479	93,178	91,742	47,626	100,349	-	-	263,566	321,570
Segment (loss) profit	(5,053)	1,121	7,613	9,465	(4,485)	(9,856)	(10,621)	-	(12,546)	730
Unallocated income									38	1,395
Unallocated expenses									(49,221)	(53,323)
Loss before tax									(61,729)	(51,198)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of certain administrative expenses, certain finance costs and certain other income. This is the measure reported to the CODM of the Group for the purposes of resource allocation and performance assessment.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	2022 HK\$'000	2021 HK\$'000
<b>Segment assets</b>		
Manufacturing	95,810	138,100
Trading	17,401	27,503
Broadband infrastructure and smart domain	96,189	142,263
Strategic investments	81,771	–
Unallocated	42,246	45,763
<b>Total assets</b>	<b>333,417</b>	<b>353,629</b>
<b>Segment liabilities</b>		
Manufacturing	16,276	22,546
Trading	8,795	20,634
Broadband infrastructure and smart domain	61,465	77,646
Unallocated	145,302	90,479
<b>Total liabilities</b>	<b>231,838</b>	<b>211,305</b>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain plant and equipment and right-of-use assets for administrative purpose, certain deferred tax assets, certain other receivables and prepayments and certain bank balances and cash as these assets are managed on a group basis; and
- all liabilities are allocated to operating segments other than certain other payables, certain lease liabilities, loan from an immediate holding company, loans from related companies, and loan from ultimate controlling party.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Other segment information

For the year ended 31 December 2022

	Manufacturing HK\$'000	Trading HK\$'000	Broadband infrastructure and smart domain HK\$'000	Strategic investments HK\$'000	Unallocated HK\$'000	Total HK\$'000
<i>Amounts included in the measure of segments profit or segment assets</i>						
Depreciation of plant and equipment	9,250	-	2,324	-	726	12,300
Depreciation of right-of-use assets	765	-	1,122	-	1,222	3,109
Impairment loss on plant and equipment	22,529	-	-	-	-	22,529
(Reversal of impairment loss) impairment loss on trade receivables, net	(50)	(18)	9,699	-	-	9,631
Impairment loss on contract assets	-	-	143	-	-	143
Impairment loss on amounts due from related companies (trade-nature)	-	-	974	-	-	974
Write-off of plant and equipment	15	-	-	-	-	15
Amortisation of intangible assets	-	-	183	-	-	183
Additions to non-current assets (note)	7,725	-	3,312	-	999	12,036
Gain on disposal of plant and equipment	(1,158)	-	-	-	-	(1,158)
Changes in fair value of financial assets at FVTPL	-	-	-	9,882	-	9,882
Changes in fair value of digital assets	-	-	-	739	-	739
<i>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:</i>						
Bank interest income	-	-	(104)	-	(34)	(138)
Finance costs	-	-	330	-	11,346	11,676

*Note:* Non-current assets excluded intangible assets and deferred tax assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Other segment information (Continued)

For the year ended 31 December 2021

	Manufacturing HK\$'000	Trading HK\$'000	Broadband infrastructure and smart domain HK\$'000	Unallocated HK\$'000	Total HK\$'000
<i>Amounts included in the measure of segments profit or segment assets</i>					
Depreciation of plant and equipment	16,248	–	2,388	1,129	19,765
Depreciation of right-of-use assets	959	–	1,295	1,201	3,455
Impairment loss on plant and equipment	15,028	–	–	–	15,028
(Reversal of impairment loss) impairment loss on trade receivables, net	(76)	(46)	6,081	–	5,959
Impairment loss on contract assets	–	–	410	–	410
Impairment loss on amounts due from related companies (trade-nature)	–	–	2,933	–	2,933
Write-off of plant and equipment	43	–	–	6	49
Write-off of intangible assets	–	–	1,058	–	1,058
Write-off of other receivables	–	–	367	–	367
Amortisation of intangible assets	–	–	181	–	181
Additions to non-current assets (note)	2,026	–	2,335	464	4,825
Gain on disposal of plant and equipment	(2,599)	–	–	–	(2,599)
Loss on disposal of non-current assets classified as held for sale	766	–	–	–	766
<i>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:</i>					
Bank interest income	–	–	(538)	(9)	(547)
Finance costs	–	–	140	8,039	8,179

Note: Non-current assets excluded intangible assets and deferred tax assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of the operations of customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Hong Kong HK\$'000	The PRC (excluding Hong Kong) HK\$'000	Asia (excluding Korea, the PRC and Hong Kong) HK\$'000	Korea HK\$'000	Europe and other HK\$'000	Total HK\$'000
<i>Revenue from external customers</i>						
For the year ended 31 December 2022	99,133	107,792	38,424	16,873	1,344	263,566
For the year ended 31 December 2021	58,804	181,516	46,306	31,363	3,581	321,570
<i>Non-current assets (note)</i>						
As at 31 December 2022	1,537	53,002	-	-	-	54,539
As at 31 December 2021	632	99,186	-	-	-	99,818

Note: Non-current assets excluded deferred tax assets.

### Information about major customers

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

	2022 HK\$'000	2021 HK\$'000
Customer A <sup>1</sup>	33,340	32,126
Customer B <sup>1</sup>	63,674	37,770
Customer C <sup>1</sup>	N/A <sup>2</sup>	35,031

<sup>1</sup> Revenue from manufacturing and trading segment.

<sup>2</sup> The corresponding revenue did not contribute over 10% of the total revenue of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 8. OTHER INCOME

	2022 HK\$'000	2021 HK\$'000
Government grants ( <i>note</i> )	1,123	1,298
Bank interest income	138	547
Interest income on finance lease	34	94
Amortisation of deferred income ( <i>note 31</i> )	2,474	1,609
Gain on disposal of plant and equipment	1,158	2,599
Gain on early termination of a lease ( <i>note 17 (iii)</i> )	229	–
Sundry income	4	1,016
	<b>5,160</b>	<b>7,163</b>

*Note:* During the years ended 31 December 2022 and 2021, government grants of HK\$907,000 and HK\$1,298,000 respectively related to the support of the subsidiaries' operations and certain research projects were received from the local government authorities in the PRC and Hong Kong. The Group fulfilled all conditions attached to the subsidies and recognised as other income upon receipts during the years ended 31 December 2022 and 2021.

During the year ended 31 December 2022, the government grants also included the amount of HK\$216,000 (2021: nil) related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund. There were no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

## 9. OTHER LOSSES

	2022 HK\$'000	2021 HK\$'000
Changes in fair value of financial assets at FVTPL	9,882	–
Changes in fair value of digital assets	739	–
	<b>10,621</b>	<b>–</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 10. FINANCE COSTS

	2022 HK\$'000	2021 HK\$'000
Interest on:		
Lease liabilities ( <i>note 17 (iii)</i> )	235	260
Bank borrowings	164	–
Loan from an immediate holding company ( <i>note 32</i> )	999	2,034
Loans from related companies ( <i>note 33</i> )	1,310	3,400
Loan from ultimate controlling party ( <i>note 34</i> )	388	–
Loss on early repayment of loan from an immediate holding company ( <i>note</i> )	1,845	761
Loss on early repayment of loans from related companies ( <i>note</i> )	6,735	1,724
	<b>11,676</b>	<b>8,179</b>

*Note:* The amounts represent the difference between the outstanding carrying amount of the loans measured at fair value and the outstanding principal loan amount according to loan agreement at the date of early repayment. For the details, please refer to note 32 and 33.

### 11. INCOME TAX (CREDIT) EXPENSE

	2022 HK\$'000	2021 HK\$'000
<b>Current tax:</b>		
Hong Kong	–	–
The PRC	657	–
	<b>657</b>	<b>–</b>
<b>Under (over) provision in prior years:</b>		
Hong Kong	18	(16)
The PRC	–	(3)
	<b>18</b>	<b>(19)</b>
Deferred tax ( <i>note 30</i> )	(4,792)	373
	<b>(4,117)</b>	<b>354</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 11. INCOME TAX (CREDIT) EXPENSE *(Continued)*

- (a) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in these jurisdictions.
- (b) Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK\$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2022 and 2021.

- (c) Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

For the years ended 31 December 2022 and 2021, the PRC subsidiary, Guangzhou Weaving Communications Telecommunications Technology Limited ("Guangzhou Weaving"), was recognised by the PRC government as "High and New Technology Enterprises" and were eligible to a preferential tax rate of 15%.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 11. INCOME TAX (CREDIT) EXPENSE *(Continued)*

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

	2022 HK\$'000	2021 HK\$'000
Loss before tax	<b>(61,729)</b>	(51,198)
Tax at the domestic income tax rate of 16.5% (2021: 16.5%)	<b>(10,185)</b>	(8,448)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(2,500)</b>	(1,485)
Tax effect of expenses not deductible for tax purpose	<b>4,337</b>	3,223
Tax effect of income not taxable for tax purpose	<b>(305)</b>	(151)
Tax effect of super deduction on research and development expenses	<b>(2,056)</b>	(2,670)
Tax effect of tax losses not recognised	<b>6,732</b>	9,904
Utilisation of tax losses previously not recognised	<b>(158)</b>	–
Under (over) provision in respect of prior years	<b>18</b>	(19)
Income tax (credit) expense for the year	<b>(4,117)</b>	354

Details of the deferred taxation are set out in note 30.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 12. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging (crediting):

	2022 HK\$'000	2021 HK\$'000
Emoluments of the directors of the Company and chief executive ( <i>note 15</i> ):		
Salaries and allowances	1,020	2,006
Retirement benefits scheme contributions	–	2
Other staff costs:		
Salaries and allowances ( <i>note*</i> )	40,213	58,460
Retirement benefits scheme contributions	4,869	6,068
<b>Total staff costs</b>	<b>46,102</b>	<b>66,536</b>
Auditors' remuneration	790	778
Amount of inventories recognised as expenses	189,855	197,482
Amortisation of intangible assets	183	181
Depreciation of plant and equipment	12,300	19,765
Depreciation of right-of-use assets	3,109	3,455
Research and development costs ( <i>note*</i> )	10,018	13,481
Impairment loss on trade receivables, net	9,631	5,959
Impairment loss on contract assets	143	410
Gain on disposal of plant and equipment	(1,158)	(2,599)
Impairment loss recognised on plant and equipment	22,529	15,028
Loss on disposal of non-current assets classified as held for sale	–	766
Write-off of plant and equipment	15	49
Impairment loss recognised on amounts due from related companies (trade-nature)	974	2,933
Gain on disposal of intangible assets	–	(90)
Write-off of intangible assets	–	1,058
Write-off of other receivables	–	367

*Note\**: Included in research and development costs were staff cost of HK\$6,503,000 (2021: HK\$9,427,000), which were included in other staff costs disclosure above.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 13. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: nil).

## 14. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2022 HK\$'000	2021 HK\$'000
<b>Loss</b>		
Loss for the purpose of basic and diluted loss per share	<b>(57,612)</b>	(51,552)

	2022 '000	2021 '000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<b>800,000</b>	800,000

The diluted loss per share is equal to the basic loss per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2022 and 2021.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 15. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES

The emoluments paid or payable to each of the five (2021: six) directors, which include the chief executive of the Group, were as follows:

For the year ended 31 December 2022	Executive directors		Independent non-executive directors			Total HK\$'000
	Mr. Zhang (Chairman) HK\$'000	Ms. Wan Duo HK\$'000	Mr. Chen Johnson Xi HK\$'000	Mr. Xu Liang HK\$'000	Ms. Zhang Yibo HK\$'000	
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings						
Fees	-	-	180	180	180	540
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings						
Other emoluments						
- Salaries and allowances	-	480	-	-	-	480
	-	480	180	180	180	1,020

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 15. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES (Continued)

For the year ended 31 December 2021	Executive directors			Independent non-executive directors			Total HK\$'000
	Mr. Zhang (Chairman) HK\$'000	Ms. Wan Duo HK\$'000	Mr. Tong Wen-hsin HK\$'000 (note i)	Mr. Chen Johnson Xi HK\$'000	Mr. Xu Liang HK\$'000	Ms. Zhang Yibo HK\$'000	
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings							
Fees	-	-	-	180	180	180	540
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings							
Other emoluments							
- Salaries and allowances	-	480	986	-	-	-	1,466
- Contributions to retirement benefits schemes	-	-	2	-	-	-	2
	-	480	988	180	180	180	2,008

*Note:*

- (i) Resigned on 1 February 2021

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 15. EMOLUMENTS OF DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES (Continued)

Of the five individuals with the highest emoluments in the Group, none of them (2021: nil) was the director and chief executive of the Company. The emoluments of the five (2021: five) individuals were as follows:

	2022 HK\$'000	2021 HK\$'000
Salaries and allowances	4,886	8,508
Discretionary bonus	–	2,677
Retirement benefits scheme contributions	195	197
	<b>5,081</b>	<b>11,382</b>

Their emoluments were within the following bands:

	2022 No. of employees	2021 No. of employees
Nil to HK\$1,000,000	2	–
HK\$1,000,001 to HK\$1,500,000	3	3
HK\$2,000,001 to HK\$2,500,000	–	1
Above HK\$2,500,000	–	1
	<b>5</b>	<b>5</b>

No emoluments were paid by the Group to any of the directors (including the chief executive) of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2022 and 2021.

During the years ended 31 December 2022 and 2021, the director, Mr. Zhang, waived his salaries of HK\$480,000 (2021: HK\$480,000). Except for Mr. Zhang, no directors (including the chief executive) of the Company or the five highest paid individuals waived or agreed to waive any emoluments paid by the Group during the years ended 31 December 2022 and 2021.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 16. PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Broadband infrastructure and network equipment <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>COST</b>						
At 1 January 2021	13,919	181,271	7,118	33,082	6,185	241,575
Additions	16	5,194	472	-	2,310	7,992
Disposal	-	(12,849)	(19)	-	-	(12,868)
Write-off	-	(103)	(119)	-	-	(222)
Transfer	-	-	215	1,284	(1,499)	-
Exchange realignment	381	5,219	101	991	193	6,885
At 31 December 2021 and 1 January 2022	14,316	178,732	7,768	35,357	7,189	243,362
Additions	37	6,395	17	-	736	7,185
Disposal	-	(29,781)	(19)	-	-	(29,800)
Write-off	-	(258)	(1)	-	-	(259)
Transfer	-	-	-	2,725	(2,725)	-
Exchange realignment	(1,132)	(14,334)	(394)	(3,089)	(469)	(19,418)
At 31 December 2022	13,221	140,754	7,371	34,993	4,731	201,070
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>						
At 1 January 2021	9,628	100,118	6,040	3,325	-	119,111
Charge for the year	3,035	14,100	435	2,195	-	19,765
Eliminated on disposal	-	(7,420)	(18)	-	-	(7,438)
Eliminated on write-off	-	(60)	(113)	-	-	(173)
Impairment loss recognised in profit and loss	-	15,028	-	-	-	15,028
Exchange realignment	298	3,254	82	129	-	3,763
At 31 December 2021 and 1 January 2022	12,961	125,020	6,426	5,649	-	150,056
Charge for the year	1,158	8,510	432	2,200	-	12,300
Eliminated on disposal	-	(19,992)	(18)	-	-	(20,010)
Eliminated on write-off	-	(243)	(1)	-	-	(244)
Impairment loss recognised in profit and loss	-	22,529	-	-	-	22,529
Exchange realignment	(1,055)	(10,960)	(244)	(561)	-	(12,820)
At 31 December 2022	13,064	124,864	6,595	7,288	-	151,811
<b>CARRYING VALUES</b>						
At 31 December 2022	157	15,890	776	27,705	4,731	49,259
At 31 December 2021	1,355	53,712	1,342	29,708	7,189	93,306

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 16. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	33% or over the lease term, whichever is shorter
Plant and machinery	10% – 33%
Furniture, fixtures and equipment	33%
Broadband infrastructure and network equipment	15 years

During the year ended 31 December 2022, in view of the under-performance of the manufacturing segment and the operating losses and significant decrease in revenue in the broadband infrastructure and smart domain segment, the directors of the Company have conducted a review of plant and equipment included in the manufacturing segment and plant and equipment, right-of-use assets and intangible assets included in the broadband infrastructure and smart domain segment of the Group, which are treated as two individual CGUs. The recoverable amounts of the two CGUs are determined based on value in use calculation with assistance of an independent professional valuer, Valtech Valuation Advisory Limited (“Valtech”), who used cash flow projection based on financial budget approved by the management.

Based on the result of the assessment, impairment loss of approximately HK\$22,529,000 (2021: HK\$15,028,000) has been recognised in respect of plant and equipment included in the manufacturing segment during the year ended 31 December 2022. The pre-tax discount rate applied in measuring the amounts of value in use was 14.34% (2021: 15.73%).

In respect of the broadband infrastructure and smart domain segment, based on the result of the assessment, its estimated recoverable amount is higher than the carrying amounts of the respective plant and equipment, right-of-use assets and intangible assets. No impairment loss was identified during the year ended 31 December 2022. The pre-tax discount rate applied in measuring the amounts of value in use was 15.87%.

Rental income of HK\$4,856,000 (2021: HK\$5,205,000) relating to the lease of broadband infrastructure and network equipment with carrying amount of HK\$27,705,000 (2021: HK\$29,708,000) for the year ended 31 December 2022 are included in “Revenue”.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 17. LEASES

### (i) Right-of-use assets

	<b>Buildings</b> <i>HK\$'000</i>
As at 1 January 2021	6,987
Addition	403
Depreciation for the year	(3,455)
Exchange realignment	134
As at 31 December 2021 and 1 January 2022	4,069
Addition	2,963
Depreciation for the year	(3,109)
Lease modification of lease term	1,230
Termination of a lease	(2,378)
Exchange realignment	(275)
As at 31 December 2022	2,500

The Group has lease arrangements for factory and office premises. The lease terms are generally ranged from one to three years (2021: one to six years).

Addition to the right-of-use assets for the year ended 31 December 2022 amounted to HK\$4,193,000 (2021: HK\$403,000), due to new and modification (i.e. extension) of leases of office premises.

### (ii) Lease liabilities

	<b>2022</b> <i>HK\$'000</i>	<b>2021</b> <i>HK\$'000</i>
Non-current	1,407	2,480
Current	1,399	2,340
	<b>2,806</b>	<b>4,820</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 17. LEASES (Continued)

### (ii) Lease liabilities (Continued)

	2022 HK\$'000	2021 HK\$'000
Amounts payable under lease liabilities		
Within one year	1,399	2,340
After 1 year but within 2 years	832	1,522
After 2 years but within 5 years	575	958
	<b>2,806</b>	4,820
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(1,399)</b>	(2,340)
Amount due for settlement after 12 months	<b>1,407</b>	2,480

During the year ended 31 December 2022, the Group entered into three (2021: one) new lease agreements in respect of renting office premises and recognised lease liability of HK\$2,963,000 (2021: HK\$403,000).

In addition, the Group entered into a lease modification agreement in respect of renting office premise and recognised lease liability of HK\$1,230,000 (2021: nil).

During the year ended 31 December 2022, the Group exercised the early termination option of a lease agreement, gain on early termination of a lease of HK\$229,000 (2021: nil) was recognised in profit and loss.

### (iii) Amounts recognised in profit or loss

	2022 HK\$'000	2021 HK\$'000
Depreciation expense on right-of-use assets – Buildings	3,109	3,455
Interest expense on lease liabilities	235	260
Gain on early termination of a lease	229	–

### (iv) Others

At 31 December 2022, the Group is committed to HK\$840,000 (2021: nil) for lease agreements not yet commenced.

During the year ended 31 December 2022, the total cash outflow for leases amount to HK\$3,510,000 (2021: HK\$3,795,000).

#### **Restrictions or covenants on leases**

As at 31 December 2022, lease liabilities of HK\$2,806,000 are recognised with related right-of-use assets of HK\$2,500,000 (2021: lease liabilities of HK\$4,820,000 and related right-of-use assets of HK\$4,069,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 18. FINANCE LEASE RECEIVABLE

Software of the Group was leased out under finance lease. Interest rate inherent in the lease was fixed at the contract date over the lease terms.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current	–	491

The lease is denominated in RMB. The Group entered into finance leasing arrangement as a lessor for software to its customer. The term of finance lease entered into was 5 years. This lease contract did not include extension or early termination options.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Amounts receivable under finance lease		
Within 1 year	–	526
After 1 year but within 2 years	–	–
Undiscounted lease payments and gross investment in lease	–	526
Less: unearned finance income	–	(35)
Present value of minimum lease payments receivable	–	491

The following table presents the amounts included in profit or loss.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Finance income on finance lease	34	94

The Group's finance lease arrangements did not include variable payments.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 18. FINANCE LEASE RECEIVABLE (Continued)

As at 31 December 2021, finance lease receivables were secured over the software leased. The Group was not permitted to sell or pledge the collateral in the absence of default by the lessee.

The directors of the Company estimate the loss allowance on finance lease receivable at the end of the reporting period at an amount equal to lifetime ECL. None of the finance lease receivable at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the lessee operate, the directors of the Company considered that no finance lease receivable is impaired.

There was no change in the estimation techniques or significant assumptions made during the year ended 31 December 2021 in assessing the loss allowance for finance lease receivable.

## 19. INTANGIBLE ASSETS

	Trademark HK\$'000	Backlog contracts HK\$'000	Software HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2021	2,600	419	2,834	5,853
Disposal	(2,600)	–	–	(2,600)
Write-off	–	–	(1,058)	(1,058)
Exchange realignment	–	12	68	80
At 31 December 2021 and 1 January 2022	–	431	1,844	2,275
Exchange realignment	–	(37)	(103)	(140)
At 31 December 2022	–	394	1,741	2,135
<b>ACCUMULATED AMORTISATION</b>				
At 1 January 2021	2,600	419	409	3,428
Provided for the year	–	–	181	181
Eliminated on disposal	(2,600)	–	–	(2,600)
Exchange realignment	–	12	15	27
At 31 December 2021 and 1 January 2022	–	431	605	1,036
Provided for the year	–	–	183	183
Exchange realignment	–	(37)	(57)	(94)
At 31 December 2022	–	394	731	1,125
<b>CARRYING VALUES</b>				
At 31 December 2022	–	–	1,010	1,010
At 31 December 2021	–	–	1,239	1,239

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 19. INTANGIBLE ASSETS (Continued)

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Trademark	1.5 years
Software	10 years
Backlog contracts	over the contract terms

## 20. INVENTORIES

	2022 HK\$'000	2021 HK\$'000
Raw materials	14,927	20,418
Finished goods	29,961	29,225
	<b>44,888</b>	<b>49,643</b>

*Note:* During the year ended 31 December 2021, inventories of HK\$3,300,000 (2022: nil), which were fully impaired in prior years, were written off as those obsolete inventories were no longer suitable for use in production or saleable in the market.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 21. TRADE AND OTHER RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Receivables at amortised cost comprise:		
Trade receivables	91,083	113,554
Less: allowance for impairment of trade receivables	(16,700)	(8,060)
	<b>74,383</b>	105,494
Deposits and other receivables	2,000	1,781
Receivables for disposal of plant and equipment and non-current assets classified as held for sale	972	10,843
Value-added tax recoverable	5,793	10,329
Prepayments	11,834	4,059
	<b>94,982</b>	132,506

During the year ended 31 December 2021, the Group had written off deposits and other receivables of approximately HK\$367,000 (2022: nil) as there was no realistic prospect of recovery.

As at 31 December 2022, the gross amount of trade receivables arising from contracts with customers and operating leases amounted to HK\$87,107,000 (2021: HK\$109,116,000) and HK\$3,976,000 (2021: HK\$4,438,000) respectively.

The Group does not hold any collateral over its trade and other receivables.

The Group allows a credit period up to 90 days to its customers for manufacturing and trading segments. For customers for broadband infrastructure and smart domain segment, various credit periods are granted to its customers, and the credit period of individual customer is considered on a mutually-agreed basis and stipulated in the project contract, as appropriate.

The following is an aged analysis of trade receivables, net of allowance for impairment, presented based on the date of delivery/invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 30 days	25,535	50,762
31 to 90 days	20,121	25,476
91 to 365 days	16,676	23,633
Over 365 days	12,051	5,623
	<b>74,383</b>	105,494

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 21. TRADE AND OTHER RECEIVABLES (Continued)

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Group recognised lifetime ECL for trade receivables in relation to its manufacturing and trading operations based on internal credit rating for its customers collectively that are not individually significant as follows:

#### As at 31 December 2022

	Weighted average expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
<b>Manufacturing and trading</b>			
Debtors with low credit risk	0.51	16,591	84
Debtors with medium credit risk	1.02	25,882	265
		42,473	349

#### As at 31 December 2021

	Weighted average expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
<b>Manufacturing and trading</b>			
Debtors with low credit risk	0.43	24,530	105
Debtors with medium credit risk	1.07	27,411	293
Debtors with high credit risk	70	49	34
		51,990	432

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 21. TRADE AND OTHER RECEIVABLES (Continued)

The lifetime ECL for trade receivables in relation to its broadband infrastructure and smart domain operations is assessed individually or based on the past due ageing of customers collectively that are not individually significant as follows:

As at 31 December 2022

	Weighted average expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
<b>Broadband infrastructure and smart domain</b>			
Current to 1 month past due	3.26	12,528	408
1 to 3 months past due	12.42	3,035	377
More than 3 months but less than 12 months past due	21.28	6,898	1,468
Over 12 months past due (note ii)	52.10	25,159	13,108
		47,620	15,361
Default receivables (note i)	100	990	990
		48,610	16,351

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 21. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2021

	Weighted average expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
<b>Broadband infrastructure and smart domain</b>			
Current to 1 month past due	2.69	24,825	668
1 to 3 months past due	8.77	7,729	678
More than 3 months but less than 12 months past due	13.54	19,784	2,679
Over 12 months past due (note ii)	30.96	8,144	2,521
		60,482	6,546
Default receivables (note i)	100	1,082	1,082
		61,564	7,628

Note (i): As at 31 December 2022, debtor who was credit-impaired with gross carrying amount of HK\$990,000 (2021: HK\$ 1,082,000) was assessed individually.

Note (ii): As at 31 December 2022, debtors who were credit-impaired with gross carrying amount of HK\$17,613,000 (2021: HK\$3,381,000) were included in the amount of trade receivables aged over 12 months past due, loss allowance of HK\$12,329,000 (2021: HK\$2,376,000) is recognised for these receivables.

The movement in the allowance for impairment of trade receivables is set out below:

	Lifetime ECL – credit impaired		Lifetime ECL – not credit impaired		Total	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
At 1 January	3,458	1,051	4,602	914	8,060	1,965
Impairment loss recognised	7,067	2,293	2,564	3,666	9,631	5,959
Transfer from not credit impaired to credit impaired	3,685	49	(3,685)	(49)	–	–
Exchange realignment	(891)	65	(100)	71	(991)	136
At 31 December	13,319	3,458	3,381	4,602	16,700	8,060

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 22. CONTRACT ASSETS

	2022 HK\$'000	2021 HK\$'000
Retention receivables of broadband infrastructure construction services	1,643	1,953
Unbilled revenue of broadband infrastructure construction services ( <i>note</i> )	3,826	312
	5,469	2,265
Less: allowance for impairment	(523)	(421)
<b>Total contract assets</b>	<b>4,946</b>	<b>1,844</b>

As at 1 January 2021, contract assets amounted to HK\$1,487,000.

The significant increase in contracts assets in 2022 is the result of the increase in ongoing broadband infrastructure construction services at the end of the year.

*Note:* Unbilled revenue included in contract assets represents the Group's right to receive consideration for work completed but not yet billed because the rights are conditional upon the satisfaction by the customers on the construction work completed by the Group and the work is pending for the certificate by the customers. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time the Group obtains the certification of the completed construction work from the customers.

The Group classifies these contract assets, net of allowance for impairment, under current assets because the Group expects to realise them in its normal operating cycle.

The recovery or settlement for contract assets pursuant to the terms of contracts is as follows:

	2022 HK\$'000	2021 HK\$'000
Within one year	4,946	1,844

The Group measures the loss allowance for contract assets at an amount equal to lifetime ECL. The ECL on contract assets is assessed individually or collectively for customers that are not individually significant using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As at 31 December 2022, the weighted average expected loss rate applied to contract assets was 9.56% (2021: 18.59%).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 22. CONTRACT ASSETS (Continued)

The movement in the allowance for impairment of contract assets is set out below:

	2022 HK\$'000	2021 HK\$'000
At 1 January	421	5
Impairment loss recognised	143	410
Exchange realignment	(41)	6
At 31 December	523	421

### 23. DIGITAL ASSETS

	2022 HK\$'000	2021 HK\$'000
Digital assets	11,189	–

As at 31 December 2022, the balance of digital assets is measured at fair value less costs to sell. During the year ended 31 December 2022, changes in fair value of digital assets amounted to approximately HK\$739,000 (2021: nil) was recognised in other losses. Subsequent to the end of the reporting period, all balance of digital assets as at 31 December 2022 has been disposed, resulting gain from changes in fair value of digital assets of HK\$3,026,000.

### 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 HK\$'000	2021 HK\$'000
Listed equity securities, at market value	70,582	–

The fair values of these investments are determined with reference to quoted market bid prices.

### 25. BANK BALANCES AND CASH

Cash at banks carried interest at floating rates which range from 0.001% to 0.3% (2021: 0.001% to 0.3%) per annum, based on daily bank deposit rates for the years ended 31 December 2022 and 2021.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 26. TRADE AND OTHER PAYABLES

	2022 HK\$'000	2021 HK\$'000
Trade payables	59,129	97,120
Payables for acquisition of plant and equipment	13	5
Accruals of costs for contract works	2,685	265
Accrued staff costs	5,266	6,548
Payable for commission	1,114	1,795
Accruals and other payables	7,918	14,450
	<b>76,125</b>	<b>120,183</b>

As at 31 December 2022, included in other payables of approximately HK\$2,628,000 (2021: nil) was due to a related company, 廣州普及房地產代理有限公司, of the Group. The amount is unsecured, non-interest bearing and repayable on demand.

Included in other payables, amount of approximately HK\$12,000 represented interest payable to loan from an immediate holding company as at 31 December 2022 (2021: HK\$1,031,000).

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2022 HK\$'000	2021 HK\$'000
Within 3 months	26,452	62,650
4 to 6 months	3,239	14,293
7 to 12 months	4,139	15,431
Over 1 year	25,299	4,746
	<b>59,129</b>	<b>97,120</b>

The credit period on purchases of goods ranged from 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 27. CONTRACT LIABILITIES

	2022 HK\$'000	2021 HK\$'000
Advances received to deliver goods	4,971	–

As at 1 January 2021, contract liabilities amounted to HK\$nil.

Receipts in advance are mainly from trading of electronic goods. The Group receives certain percentage of the contract sum as advance payment from the customers to deliver goods.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 28. BANK BORROWINGS

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	2022 HK\$'000	2021 HK\$'000
Within one year	7,277	–

During the year ended 31 December 2022, the Group obtained a new unsecured bank loan of HK\$7,277,000 (2021: nil) with fixed rate of 4.8% for one year in the PRC. The proceeds were used for general working capital purpose.

### 29. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 December 2022 and 2021, the balances are trade nature with various credit periods granted to its related companies on mutually-agreed basis and stipulated in the project contract, as appropriate. All of the related companies are beneficially owned by Mr. Zhang.

The following is an aged analysis of amounts due from related companies, net of allowance for impairment, presented based on the date of delivery/invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2022 HK\$'000	2021 HK\$'000
0 to 30 days	533	2,975
31 to 90 days	351	1,007
91 to 365 days	912	3,627
Over 365 days	6,674	3,899
	8,470	11,508

The Group measures the loss allowance for amounts due from related companies at an amount equal to lifetime ECL. The ECL on amounts due from related companies are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 29. AMOUNTS DUE FROM RELATED COMPANIES (Continued)

The Group recognised lifetime ECL for amounts due from related companies based on internal credit rating for its customers collectively that are not individually significant as follows:

As at 31 December 2022

	Weighted average expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Debtors with high credit risk	30.19	12,133	3,663

As at 31 December 2021

	Weighted average expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Debtors with low credit risk	5.04	119	6
Debtors with high credit risk	20.67	14,364	2,969
		14,483	2,975

The movement in the allowance for impairment of amounts due from related companies is set out below:

	2022 HK\$'000	2021 HK\$'000
At 1 January	2,975	–
Impairment loss recognised	974	2,933
Exchange realignment	(286)	42
At 31 December	3,663	2,975

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 30. DEFERRED TAXATION

The following is the analysis of the deferred tax assets (liability), after set off certain deferred tax assets against deferred tax liability of the same taxable entity, for financial reporting purposes:

	2022 HK\$'000	2021 HK\$'000
Deferred tax assets	17,670	14,264
Deferred tax liability	(272)	(313)
	<b>17,398</b>	<b>13,951</b>

The following are the major deferred tax assets (liability) recognised and movements thereon during both years:

	Impairment loss on inventories HK\$'000	Impairment loss on plant and equipment, right-of-use assets and non-current assets classified as held for sale HK\$'000	Impairment loss on trade receivables and contract assets HK\$'000	Impairment loss on amounts due from related companies (trade-nature) HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2021	814	13,157	290	–	(340)	13,921
(Charge) credit to profit or loss	(826)	(960)	937	440	36	(373)
Exchange realignment	12	372	22	6	(9)	403
At 31 December 2021 and 1 January 2022	–	12,569	1,249	446	(313)	13,951
Credit to profit or loss	–	3,147	1,484	146	15	4,792
Exchange realignment	–	(1,172)	(156)	(43)	26	(1,345)
At 31 December 2022	–	14,544	2,577	549	(272)	(17,398)

At the end of the reporting period, the Group has unused tax losses of HK\$161,146,000 (2021: HK\$138,206,000) available for offset against future profits, out of which HK\$79,502,000 (2021: HK\$68,978,000) that may be carried forward indefinitely and the remaining tax losses of HK\$81,644,000 (2021: HK\$69,228,000) will expire within five years from the year in which the respective loss arose. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams.

At the end of the reporting period, the Group has deductible temporary differences of HK\$2,880,000 (2021: HK\$3,147,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 31. DEFERRED INCOME

	2022 HK\$'000	2021 HK\$'000
Government grants		
– Non-current	2,524	5,086
– Current	470	796
	<b>2,994</b>	<b>5,882</b>

During the year ended 31 December 2021, the Group received government grants of approximately HK\$1,677,000 (2022: nil) for acquisition of certain machineries which has been treated as deferred income and are amortised to profit or loss over the useful lives of the related machineries. This policy has resulted in a credit to profit or loss in the current period of approximately HK\$756,000 (2021: HK\$870,000). As at 31 December 2022, balances of approximately HK\$2,994,000 (2021: HK\$5,882,000) remain to be amortised in the future financial years. During the year ended 31 December 2022, the Group has disposed of certain machineries under the government grant scheme, therefore, approximately HK\$1,718,000 (2021: HK\$739,000) of deferred income has been fully recognised in other income.

## 32. LOAN FROM AN IMMEDIATE HOLDING COMPANY

	2022 HK\$'000	2021 HK\$'000
Within one year	473	–
After one year but within two years	–	23,051
After two year but within five years	–	2,049
	<b>473</b>	<b>25,100</b>
Amounts shown under current liabilities	473	–
Amounts shown under non-current liabilities	–	25,100
	<b>473</b>	<b>25,100</b>

As at 31 December 2021, the amount represented a facility loan and an interest-free loan from an immediate holding company with the principal loan amount of HK\$25,120,000 (2022: HK\$486,000) and HK\$2,500,000 (2022: nil) respectively and the corresponding carrying amount of HK\$23,051,000 (2022: HK\$ 473,000) and HK\$ 2,049,000 (2022: nil) respectively.

The facility loan is unsecured and bearing interest at a fixed rate of 2% per annum and is originally repayable in 2021. During the year ended 31 December 2021, the Group extended the facility loan to 2023 with the principal loan amount of HK\$29,920,000 at the date of extension.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 32. LOAN FROM AN IMMEDIATE HOLDING COMPANY *(Continued)*

During the year ended 31 December 2022, the Group obtained new loan from the above mentioned facility loan with the principal loan amount of HK\$1,298,000 (2021: HK\$3,200,000). The effective interest rate of the facility loan is 7.92% (2021: 7.92%) per annum.

The directors of the Company assessed the fair value of the facility loan with the principal loan amount of HK\$1,298,000 (2021: HK\$3,200,000) at the drawdown date of the loan during the year ended 31 December 2022, taken into account an effective interest rate of 7.92% (2021: 7.92%) per annum, and recognised an initial fair value adjustment of approximately HK\$83,000 (2021: HK\$3,516,000) to the outstanding carrying amount of the loan from an immediate holding company and capital reserve as deemed contribution from an immediate holding company of approximately HK\$83,000 (2021: HK\$3,516,000).

During the year ended 31 December 2022, the Group repaid a portion of the above mentioned facility loan of principal amount of HK\$25,932,000 (2021: HK\$16,000,000), and interest expenses incurred of HK\$933,000 (2021: HK\$1,926,000) in note 10, which led to the loss on early repayment of approximately HK\$1,460,000 (2021: HK\$761,000) recognised in profit and loss.

The interest-free loan is unsecured, interest-free and is repayable in 2025. The effective interest rate of the interest-free loan is 5.58% per annum.

The directors of the Company assessed the fair value of the interest-free loan with the principal loan amount of HK\$2,500,000 at the drawdown date of the loan in 2020, taken into account an effective interest rate of 5.58% per annum, and recognised an initial fair value adjustment of approximately HK\$594,000 to the outstanding carrying amount of the loan from an immediate holding company and capital reserve as deemed contribution from an immediate holding company of approximately HK\$594,000 during the year ended 31 December 2020.

During the year ended 31 December 2021, the interest expenses incurred on the interest-free loan was HK\$108,000 (2020: HK\$35,000) and therefore, the carrying amount of the interest-free loan was HK\$2,049,000 (2020: HK\$1,941,000) as at 31 December 2021.

During the year ended 31 December 2022, the Group early repaid the above mentioned interest-free loan of principal amount of HK\$2,500,000 (2021: nil) and interest expenses incurred of HK\$66,000 (2021: HK\$108,000) in note 10, which led to the loss on early repayment of approximately HK\$385,000 (2021: nil) recognised in profit and loss.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 32. LOAN FROM AN IMMEDIATE HOLDING COMPANY (Continued)

As at the end of the reporting period, the Group has the following undrawn facilities at interest rate of 2% (2021: 2%) per annum for remaining 12 months (2021: 24 months) granted by an immediate holding company:

	2022 HK\$'000	2021 HK\$'000
Fixed rate expiring:		
– Within one year	37,514	–
– Beyond one year	–	12,880

### 33. LOANS FROM RELATED COMPANIES

	2022 HK\$'000	2021 HK\$'000
Within one year	59,625	–
After one year but within two years	–	35,241
After two year but within five years	–	19,766
	<b>59,625</b>	<b>55,007</b>

As at 31 December 2021, the amount represented loans from Tian Li (Hong Kong) Tou Zi Company Limited (“Tian Li”) and 廣州普及房地產代理有限公司, with the principal loan amount of HK\$24,000,000 (2022: nil) and RMB31,734,000 (equivalent to approximately HK\$38,814,000) (2022: RMB15,476,000 (equivalent to approximately HK\$17,325,000)) respectively.

For the loan from Tian Li, the director of Tian Li is a close family member of Mr. Zhang, the controlling shareholder of the Group, with the principal loan amount of HK\$24,000,000 (2022: nil) as at 31 December 2021, the loan is unsecured, interest-free and is repayable in 2025. The effective interest rate of the loan from Tian Li is 5.57% (2021: 5.57%) per annum.

During the year ended 31 December 2022, the Group repaid the loan from Tian Li of principal amount of HK\$24,000,000 (2021: nil), and interest expenses incurred of HK\$635,000 (2021: HK\$1,042,000) in note 10, which led to the loss on early repayment of approximately HK\$3,599,000 (2021: nil) recognised in profit and loss.

For the loan from 廣州普及房地產代理有限公司, which is beneficially owned by Mr. Zhang, the controlling shareholder of the Group, with the principal loan amount of RMB15,476,000 (equivalent to approximately HK\$17,325,000) (2021: RMB31,734,000 (equivalent to approximately HK\$38,814,000)) as at 31 December 2022, the loan is unsecured, interest-free and is repayable in 2023. The effective interest rate of the loan from 廣州普及房地產代理有限公司 is 5.17% (2021: 5.17%) per annum.

During the year ended 31 December 2022, the Group obtained new loan from 廣州普及房地產代理有限公司 with the principal loan amount of HK\$43,174,000 (2021: nil). The effective interest rate of the facility loan is 5.17% (2021: nil) per annum.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 33. LOANS FROM RELATED COMPANIES (Continued)

The directors of the Company assessed the fair value of the loan from 廣州普及房地產代理有限公司 with the principal loan amount of HK\$43,174,000 (2021: nil) at the drawdown date of the loan during the year ended 31 December 2022, taken into account an effective interest rate of 5.17% per annum, and recognised an initial fair value adjustment of approximately HK\$426,000 (2021: nil) to the outstanding carrying amount of the loans from related companies and capital reserve as deemed contribution from related companies of approximately HK\$426,000 (2021: nil).

During the year ended 31 December 2022, the Group repaid a portion of the above mentioned loan from 廣州普及房地產代理有限公司 of principal amount of HK\$62,017,000 (2021: HK\$17,378,000), and total interest expenses incurred of HK\$675,000 (2021: HK\$2,358,000) in note 10, which led to the loss on early repayment of approximately HK\$3,136,000 (2021: HK\$1,724,000) recognised in profit and loss.

During the year ended 31 December 2022, the Group obtained a new loan from Skynova International Limited, which is beneficially owned by Mr. Zhang, with principal amount of HK\$42,300,000 (2021: nil). The loan is unsecured, interest-free and contains a repayment on demand clause.

## 34. LOAN FROM ULTIMATE CONTROLLING PARTY

	2022 HK\$'000	2021 HK\$'000
After two year but within five years	77,261	–

During the year ended 31 December 2022, the Group obtained a new loan from the ultimate controlling party, Mr. Zhang, with principal amount of HK\$100,500,000 (2021: nil). The loan is unsecured, interest free and is repayable in 2025. The effective interest rate of the loan is 9.43% per annum.

The directors of the Company assessed the fair value of the loan with the principal loan amount of HK\$100,500,000 (2021: nil) at the drawdown date of the loan and interest expenses incurred of HK\$388,000 (2021: nil) in note 10, during the year ended 31 December 2022, taken into account an effective interest rate of 9.43% per annum, and recognised an initial fair value adjustment of approximately HK\$23,627,000 (2021: nil) to the outstanding carrying amount of the loan from ultimate controlling party and capital reserve as deemed contribution from ultimate controlling party of approximately HK\$23,627,000 (2021: nil).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 35. SHARE CAPITAL AND RESERVES

### (a) Share capital

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
<b>Authorised:</b>		
At 1 January 2021, 31 December 2021 and 31 December 2022	2,000,000	20,000
<b>Issued and fully paid:</b>		
At 1 January 2021, 31 December 2021 and 31 December 2022	800,000	8,000

### (b) Reserves

#### (i) *PRC statutory reserve*

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of Dongguan Jia Jun Electronic Technology Company Limited ("Dongguan Jia Jun"), Guangzhou Weaving and Hunan Huama Construction Engineering Co., Ltd. ("Hunan Huama"). Appropriations to the reserves were determined by the respective board of directors of Dongguan Jia Jun, Guangzhou Weaving and Hunan Huama and can be used to offset accumulated losses and increase capital upon approval from the relevant government authorities.

#### (ii) *Capital reserve*

Capital reserve represents (i) the difference between the aggregate amount of issued and fully paid share capital of the subsidiaries acquired by the Company and the nominal amount of the shares issued by the Company as consideration; (ii) additional contributions made by the prior shareholders of the Company's subsidiaries; (iii) difference between the carrying amounts of non-controlling interests acquired and the consideration paid for acquisition of addition interest in subsidiaries; and (iv) deemed contribution from the loans from an immediate holding company, related companies, and ultimate controlling party.

#### (iii) *Merger reserve*

Merger reserve arising from acquisition of the subsidiaries under common control being the difference between the consideration paid for the acquisition and the carrying amount of the net assets of the subsidiaries at the date when the Group and the acquired subsidiaries become under common control.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 36. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Non-current assets</b>			
Plant and equipment		47	70
Investments in subsidiaries		76,376	80,986
		<b>76,423</b>	<b>81,056</b>
<b>Current assets</b>			
Amounts due from subsidiaries	<i>(a)</i>	61,686	71,662
Prepayments and other receivables		284	278
Digital assets		11,189	-
Financial assets at fair value through profit or loss		70,582	-
Bank balances and cash		6,457	125
		<b>150,198</b>	<b>72,065</b>
<b>Current liabilities</b>			
Other payables		2,270	3,256
Amounts due to subsidiaries	<i>(a)</i>	2,738	827
Loan from an immediate holding company	<i>32</i>	473	-
Loan from a related company	<i>33</i>	42,300	-
		<b>47,781</b>	<b>4,083</b>
<b>Net current assets</b>		<b>102,417</b>	<b>67,982</b>
<b>Total assets less current liabilities</b>		<b>178,840</b>	<b>149,038</b>
<b>Non-current liabilities</b>			
Loan from an immediate holding company	<i>32</i>	-	25,100
Loan from a related company	<i>33</i>	-	19,766
Loan from ultimate controlling party	<i>34</i>	77,261	-
		<b>77,261</b>	<b>44,866</b>
		<b>101,579</b>	<b>104,172</b>
<b>Capital and reserves</b>			
Share capital	<i>35</i>	8,000	8,000
Reserves	<i>(b)</i>	93,579	96,172
		<b>101,579</b>	<b>104,172</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 36. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(Continued)

Notes:

- (a) The amounts are unsecured, interest-free and repayable on demand.
- (b) Movements in the Company's reserves

	Share premium HK\$'000	Capital reserve HK\$'000 (Note)	Accumulated losses HK\$'000	Total HK\$'000
At January 2021	104,098	62,814	(60,912)	106,000
Loss and total comprehensive expense for the year	-	-	(13,344)	(13,344)
Deemed contribution from an immediate holding company (note 32)	-	3,516	-	3,516
At 31 December 2021 and 1 January 2022	104,098	66,330	(74,256)	96,172
Loss and total comprehensive expense for the year	-	-	(26,303)	(26,303)
Deemed contribution from an immediate holding company and ultimate controlling party (note 32 and 34)	-	23,710	-	23,710
At 31 December 2022	104,098	90,040	(100,559)	93,579

Note: Capital reserve represents (i) the difference between the nominal value of the shares issued by the Company for the acquisition of equity interests of its subsidiaries and the net assets value of its subsidiaries at the date of acquisition; and (ii) deemed contribution from the loan from an immediate holding company, related companies and ultimate controlling party.

## 37. RETIREMENT BENEFIT SCHEMES

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The MPF Scheme is a defined contribution retirement plan and the assets of the MPF Scheme are held separately from those of the Group in funds administered by independent trustee. Under the MPF Scheme, the Group and its employees makes monthly contributions to the MPF Scheme at 5% of the employee's earnings capped at HK\$1,500 per month to the MPF Scheme in both years.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of approximately HK\$4,869,000 (2021: HK\$6,070,000) represent contributions payable to these schemes by the Group during the year ended 31 December 2022. Contributions to the scheme vest immediately.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 23 September 2015 for the primary purpose of rewarding the directors of the Company and eligible employees, advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group whom board considers, in its sole discretion, have contributed or will contribute to the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company (the "Shares") in issue at any point in time, without prior approval from the Company's shareholders. Besides, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under any Schemes of our Company must not exceed such number of Shares as shall represent 30% of the total number of Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 (or such other amount as shall be permissible under the Main Board Listing Rules from time to time) must be approved in advance by the shareholders.

Options may be exercised in accordance with the terms of the Scheme shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years from the offer date. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Shares as stated in Stock Exchange's daily quotations sheets on the date on which the option is offered to a participant ("Offer Date"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Shares.

At 31 December 2022 and 2021, no options had been granted or remained outstanding under the Scheme.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 39. CAPITAL COMMITMENT

At the end of the reporting period, the Group has the following capital commitment in respect of the acquisition of plant and equipment:

	2022 HK\$'000	2021 HK\$'000
Contracted for but not provided in the consolidated financial statements		
– Plant and equipment	2,587	558
– Broadband infrastructure and network equipment	4,469	5,660
	<b>7,056</b>	<b>6,218</b>

## 40. OPERATING LEASE ARRANGEMENT

### The Group as lessor

The Group leases out broadband infrastructure and network equipment under operating leases. The leases typically run for an initial period of one to nine years. Lease payments are usually increased every 3 years to reflect market rentals. None of the leases includes variable lease payments.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2022 HK\$'000	2021 HK\$'000
Within one year	3,371	3,232
After one year but within two years	2,536	2,432
After two years but within three years	1,697	1,433
After three years but within five years	916	841
	<b>8,520</b>	<b>7,938</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 41. RELATED PARTY DISCLOSURES

Other than as disclosed elsewhere in these consolidated financial statements, during this year, the Group has the following transaction with its related parties.

### (a) Related parties' transactions

Saved as elsewhere disclosed in these consolidated financial statement, during the year, the Group entered into the following transactions with related parties:

	2022 HK\$'000	2021 HK\$'000
Revenue from broadband infrastructure construction services		
遵義實地房地產開發有限公司*	–	5,647
天津金河灣置業有限公司*	890	285
廣東譽豐地產發展有限公司*	–	155
廣州豐實房地產開發有限公司*	261	67
惠州市現代城房地產發展有限公司*	4,315	3,207
武漢平安中信置業有限公司*	451	357
三亞巨源旅業開發有限公司*	328	164
實地地產集團有限公司*	–	41
太原和泰盛瑞置業有限公司*	–	116
重慶實地房地產開發有限公司*	977	2,389
天津實地房地產開發有限公司*	148	–
重慶實創趨勢房地產開發有限公司*	508	–
周口實地房地產開發有限公司*	198	–
廣州哈奇智能科技有限公司	–	195
廣東實地物業管理有限公司	–	64
Guangzhou R&F Properties Co., Ltd. and its subsidiaries, joint ventures and associates (“Guangzhou R&F Group”)	11,776	38,328
Service costs charged by		
廣州天力物業發展有限公司 (「廣州天力」)	–	6,680
廣州富力鼎盛置業發展有限公司富力君悅大酒店分公司 (「廣州富力鼎盛置業」)	171	39
廣東實地物業管理有限公司	179	41
廣州富力美好置業發展有限公司	11	–

\* These related party transactions also constituted continuing connected transactions which are subject to annual review and relevant requirements under Chapter 14A of the Listing Rules.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 41. RELATED PARTY DISCLOSURES (Continued)

### (b) Related parties' balances

	2022 HK\$'000	2021 HK\$'000
Amounts due from related companies (trade-nature)		
遵義實地房地產開發有限公司	4,437	6,554
天津金河灣置業有限公司	345	250
廣東譽豐地產發展有限公司	361	448
廣州豐實房地產開發有限公司	276	142
惠州市現代城房地產發展有限公司	683	2,530
重慶實地房地產開發有限公司	1,127	904
武漢平安中信置業有限公司	553	275
深圳富茅房地產開發有限公司	12	15
實地地產集團有限公司	8	10
廣州哈奇智能科技有限公司	105	154
三亞巨源旅業開發有限公司	330	119
太原和泰盛瑞置業有限公司	85	105
廣東實地物業管理有限公司蘿崗分公司	2	2
周口實地房地產開發有限公司	146	-
	<b>8,470</b>	<b>11,508</b>
Balances with Guangzhou R&F Group		
– Included in trade receivables	11,721	22,689
– Included in contract assets	1,029	850
Balances with 廣州天力		
– Included in prepayments	-	1,133
– Included in trade payables	-	2,048
– Included in accrual	-	5,761
Balances with 廣州富力鼎盛置業		
– Included in trade payables	34	12
Balances with 廣東實地物業管理有限公司		
– Included in prepayments	44	52
– Included in trade payables	29	31

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 41. RELATED PARTY DISCLOSURES (Continued)

### (b) Related parties' balances (Continued)

The Guangzhou R&F Group and 廣州富力鼎盛置業 are controlled, jointly controlled or significantly influenced by the close family member of the Group's controlling shareholder, Mr. Zhang. There are various credit terms granted to/from the related parties on mutually agreed basis.

In prior year, the Group was granted the right to use two trademarks registered by a company jointly controlled by Mr. Chow Hin Keong and an independent third party at nil consideration. Mr. Chow Hin Keong is a director of the principal operating subsidiaries of the Group.

### (c) Compensation of key management personnel

The directors of the Company considered that they are the only key management personnel of the Group for the years ended 31 December 2022 and 2021 and their emoluments are disclosed in note 15.

The emoluments of the directors of the Company are determined by the Board with reference to the performance of individuals and market trends.

## 42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place/country of incorporation/ registration/ operation	Class of shares held	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest and voting power held by the Company		Principal activities
				2022	2021	
<u>Directly held</u>						
Top Dynamic International (BVI) Ltd	BVI	Ordinary share	USD1,000	100%	100%	Investment holding
Tech Elite Investments Limited	BVI	Ordinary share	USD1	100%	100%	Investment holding
Brainhole Technology Investments Limited	Hong Kong	Ordinary share	HK\$26,600,000	100%	100%	Investment holding
Brainhole Technology Industrial Development Holdings Limited	BVI	Ordinary share	US\$1	100%	100%	Investment holding
<u>Indirectly held</u>						
Top Dynamic (BVI) Limited	BVI	Ordinary share	USD100	100%	100%	Investment holding
Top Dynamic Electronics Limited	Hong Kong	Ordinary share	HK\$1	100%	100%	Trademark holding
Top Empire Management Limited	Hong Kong	Ordinary share	HK\$1	100%	100%	Provision of management service
Top Dynamic Enterprises Limited	Hong Kong	Ordinary share	HK\$1	100%	100%	Trading of electronic goods and electrical parts and components
Dongguan Jia Jun (Notes (i) and (ii))	PRC	Registered capital	USD12,000,000	100%	100%	Manufacturing and trading of electronic goods and electrical parts and components

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place/country of incorporation/ registration/ operation	Class of shares held	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest and voting power held by the Company		Principal activities
				2022	2021	
Guangzhou Weaving (Notes (i) and (ii))	PRC	Registered capital	RMB34,362,336	100%	100%	Broadband infrastructure construction and the provision of integrated solution for smart domain (including smart home, smart campus and smart communities)
Hunan Huama Construction Engineering Co., Ltd. ("Hunan Huama") (Notes (i) and (ii))	PRC	Registered capital	RMB2,000,000	100%	100%	Broadband infrastructure construction and the provision of integrated solution for smart domain (including smart home, smart campus and smart communities)
Brainhole Technology Industrial Development Limited	Hong Kong	Ordinary share	HK\$10,000	100%	100%	Inactive
Guangzhou Brainhole Weaving Communications Telecommunications Technology Limited ("Guangzhou Brainhole Weaving") (Notes (i) and (ii))	PRC	Registered capital	US\$3,310,000	100%	100%	Investment holding
Guangzhou Weaving Intelligence Technology Limited ("Guangzhou Weaving Intelligence") # (Notes (i) and (ii))	PRC	Registered capital	RMB30,000,000	100%	N/A	Inactive

# Incorporated during the year ended 31 December 2022.

### Notes:

- (i) Dongguan Jia Jun, Guangzhou Weaving, Hunan Huama, Guangzhou Brainhole Weaving and Guangzhou Weaving Intelligence are wholly-owned foreign enterprise established in the PRC.
- (ii) The English translation of the company name is for reference only. The official name of these companies are 東莞市佳駿電子科技有限公司, 廣州織網通訊科技有限公司, 湖南華馬建設工程有限公司, 廣州腦洞織網通訊科技有限公司 and 廣州織網智能科技有限公司 respectively.

None of the subsidiaries had issued any debt securities during both years or at the end of both years.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	1 January 2022 <i>HK\$000</i>	Financing cash flows <i>HK\$000</i>	Non-cash changes				Exchange realignment <i>HK\$000</i>	31 December 2022 <i>HK\$000</i>
			New lease arrangements/ lease modification <i>HK\$000</i>	Termination of a lease <i>HK\$000</i>	Finance cost incurred <i>HK\$000</i>	Recognition of deemed contribution <i>HK\$000</i>		
Bank borrowings	-	7,370	-	-	164	-	(257)	7,277
Lease liabilities	4,820	(3,510)	4,193	(2,607)	235	-	(325)	2,806
Loan from an immediate holding company	25,100	(27,134)	-	-	2,590	(83)	-	473
Interest payable	1,031	(1,273)	-	-	254	-	-	12
Loans from related companies	55,007	(543)	-	-	8,045	(426)	(2,458)	59,625
Loan from ultimate controlling party	-	100,500	-	-	388	(23,627)	-	77,261
	85,958	75,410	4,193	(2,607)	11,676	(24,136)	(3,040)	147,454

	1 January 2021 <i>HK\$000</i>	Financing cash flows <i>HK\$000</i>	Non-cash changes				Exchange realignment <i>HK\$000</i>	31 December 2021 <i>HK\$000</i>
			New lease arrangements <i>HK\$000</i>	Finance cost incurred <i>HK\$000</i>	Recognition of deemed contribution <i>HK\$000</i>			
Lease liabilities	7,795	(3,795)	403	260	-	157	4,820	
Loan from an immediate holding company	39,272	(12,800)	-	2,144	(3,516)	-	25,100	
Interest payable	380	-	-	651	-	-	1,031	
Loans from related companies	66,060	(17,378)	-	5,124	-	1,201	55,007	
	113,507	(33,973)	403	8,179	(3,516)	1,358	85,958	

### 44. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2022, the Group had acquired and disposed of certain listed equity securities. Details of which are set out in the Company's announcement dated 3 January 2023, 11 January 2023, 13 January 2023, 16 January 2023, 19 January 2023, 26 January 2023, 15 February 2023, 16 February 2023, 20 February 2023 and 30 March 2023 respectively.

In addition, the Group had disposed of the digital assets held as of 31 December 2022 on 11 February 2023. Details of such disposal are set out in the Company's announcement dated 13 February 2023.

## Financial Summary of the Group

	For the year ended 31 December				
	2018	2019	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Restated)</i>				
<b>Results</b>					
Revenue	388,696	346,673	261,809	321,570	<b>263,566</b>
Profit (loss) before tax	41,992	(54,608)	(67,113)	(51,198)	<b>(61,729)</b>
Total comprehensive income (expense) for the year	27,962	(54,174)	(51,554)	(47,830)	<b>(64,881)</b>

	As at 31 December				
	2018	2019	2020	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Restated)</i>				
<b>Assets and Liabilities</b>					
Total assets	405,082	410,038	370,340	353,629	<b>333,417</b>
Total liabilities	77,023	185,158	183,702	211,305	<b>231,838</b>
Total equity	328,059	224,880	186,638	142,324	<b>101,579</b>

*Note:*

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2018 have been restated to include the operating results of Guangzhou Weaving Group as if the acquisition of Guangzhou Weaving Group had been completed on 27 April 2018, being the earliest date when the combining entities or businesses first came under the control of Mr. Zhang. As Guangzhou Weaving and the Company are ultimately controlled by Mr. Zhang, the acquisition of Guangzhou Weaving was regarded as business combination under common control.

## Definitions

In this report, unless the context otherwise requires, the following expressions have the following meanings:

“Articles”	the articles of association of the Company adopted on 23 September 2015
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Company”	Brainhole Technology Limited 腦洞科技有限公司, a company incorporated as an exempted company with limited liability in the Cayman Islands
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guangzhou Weaving”	Guangzhou Weaving Communications Telecommunications Technology Limited (廣州織網通訊科技有限公司*), a company established in the PRC with limited liability
“Guangzhou Weaving Group”	Guangzhou Weaving and its subsidiary
“HK\$” or “HK dollar(s)” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Korea”	the Republic of Korea

## Definitions

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented and/or otherwise modified from time to time as the context may require
“Main Board”	the Main Board of the Stock Exchange
“Model Code”	a code of conduct adopted by the Company regarding securities transactions by Directors and employees of the Group on terms no less exacting than the required standard of dealings set out in Appendix 10 to the Listing Rules
“Period”	the year ended 31 December 2022
“PRC”	the People’s Republic of China, save that, for the purpose of this report and unless the context otherwise requires, references in this report do not include Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Scheme”	the share option scheme adopted by the Company on 23 September 2015
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“%”	per cent.

\* *The English translation of the company name is for reference only. The official name of this company is in Chinese.*