



TRIGIANT GROUP LIMITED

俊知集團有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1300



5G

2022

INTERIM REPORT



* For identification purposes only



TRIGIANT GROUP LIMITED ~ INTERIM REPORT 2022

CONTENTS

Corporate Information	2
Highlights	4
Report on Review of Condensed Consolidated Financial Statements	5
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Condensed Consolidated Statement of Financial Position	7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Statement of Cash Flows	9
Notes to the Condensed Consolidated Financial Statements	10
Management Discussion and Analysis	25
Other Information	34

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Qian Lirong (*Chairman and Group chief executive officer*)
Qian Chenhui

NON-EXECUTIVE DIRECTOR

Xia Bin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Jin Xiaofeng
Chan Fan Shing
Chen Gang

ALTERNATE DIRECTOR

Qian Liqian (*alternate director to Qian Lirong*)
(*Resigned on 26 August 2022*)

AUDIT COMMITTEE

Chan Fan Shing (*Chairman*)
Professor Jin Xiaofeng
Chen Gang

REMUNERATION COMMITTEE

Professor Jin Xiaofeng (*Chairman*)
Qian Chenhui
Chan Fan Shing

NOMINATION COMMITTEE

Professor Jin Xiaofeng (*Chairman*)
Chan Fan Shing
Chen Gang

CORPORATE GOVERNANCE COMMITTEE

Qian Chenhui (*Chairman*)
Chan Fan Shing
Chen Gang

COMPANY SECRETARY

Lee Yiu Wai William

AUTHORISED REPRESENTATIVES

Qian Lirong
Lee Yiu Wai William
Chan Fan Shing (*alternate to Qian Lirong*)

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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8 Fleming Road
Wanchai
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

No. 1 Junzhi Road
Industrial Park for Environmental
Protection Science & Technology
Yixing City
Jiangsu Province
PRC

COMPANY WEBSITE

www.trigiant.com.hk

HKEX STOCK CODE

1300

INVESTOR RELATIONS

Trigiant Group Limited
Email: ir@trigiant.com.cn

DLK Advisory Limited
(*as the Company's investor relations consultant*)
Email: ir@dlkadvisory.com

In this report, the English translation of names in Chinese or another language which are marked with "*" is for identification purpose only. If there is any inconsistency between the Chinese names of entities established in the People's Republic of China and their English translations, the Chinese names shall prevail.

CORPORATE INFORMATION

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditor

LEGAL ADVISERS

LCH Lawyers LLP (*as to Hong Kong laws*)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Agricultural Bank of China
Bank of China
China Construction Bank
Bank of Communication
China Citic Bank
Bank of JiangSu
HSBC
OCBC Bank
Postal Savings Bank of China
Standard Chartered Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Financial Centre
16 Harcourt Road
Hong Kong

HIGHLIGHTS

Interim results for the six months ended 30 June 2022 (“2022H1” or “Period”) compared with the six months ended 30 June 2021 (“2021H1”):

- Turnover decreased by approximately RMB79.6 million, or approximately 6.0%, to approximately RMB1,244.8 million;
- Gross profit margin decreased by approximately 1.3 percentage point, to approximately 14.3%;
- Profit for the period decreased by approximately RMB3.2 million, or approximately 6.1%, to approximately RMB49.7 million (2021H1: RMB52.9 million);
- Net profit margin remained at 4.0% (2021H1: 4.0%);
- Earnings per share decreased from RMB2.95 cents to RMB2.77 cents; and
- The Board does not recommend the declaration of payment of interim dividend for the six months ended 30 June 2022 (2021H1: Nil).

The board (“Board”) of directors (“Directors”) of Trigiant Group Limited (“Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022 together with the comparative figures for the corresponding period in 2021 and the relevant explanatory notes as set out below.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF TRIGIANT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Trigiant Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 6 to 24, which comprise the condensed consolidated statement of financial position as of 30 June 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“HKSRE 2410”) issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

26 August 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	NOTES	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Turnover	3	1,244,756	1,324,369
Cost of goods sold		(1,066,302)	(1,117,645)
Gross profit		178,454	206,724
Other income	4	8,917	8,446
Impairment losses under expected credit loss model, net of reversal	5	(12,670)	(33,648)
Other gains and losses	5	2,071	(1,399)
Selling and distribution costs		(26,421)	(32,447)
Administrative expenses		(19,861)	(21,146)
Research and development costs		(22,876)	(30,744)
Finance costs		(31,615)	(32,420)
Profit before taxation	6	75,999	63,366
Taxation charge	7	(26,322)	(10,467)
Profit and total comprehensive income for the period		49,677	52,899
Earnings per share	9		
— basic		RMB2.77 cents	RMB2.95 cents
— diluted		RMB2.77 cents	RMB2.95 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
	NOTES		
Non-current assets			
Property, plant and equipment	10	179,566	189,312
Right-of-use assets	10	66,657	66,848
Equity instruments at fair value through other comprehensive income		475	475
Pledged bank deposits		155,921	105,935
Deferred tax assets	14	101,330	99,168
		503,949	461,738
Current assets			
Inventories		198,415	242,352
Trade and other receivables	11	4,414,485	4,341,830
Pledged bank deposits		87,783	104,449
Bank balances and cash		479,455	459,272
		5,180,138	5,147,903
Current liabilities			
Trade and other payables	12	134,847	676,471
Borrowings	13	1,826,100	1,265,000
Lease liabilities		982	609
Taxation payable		45,316	41,830
		2,007,245	1,983,910
Net current assets		3,172,893	3,163,993
Total assets less current liabilities		3,676,842	3,625,731
Non-current liabilities			
Lease liabilities		1,498	994
Government grants		1,389	1,588
Deferred tax liabilities	14	23,323	22,194
		26,210	24,776
Net assets		3,650,632	3,600,955
Capital and reserves			
Share capital	15	14,638	14,638
Reserves		3,635,994	3,586,317
Total equity		3,650,632	3,600,955

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital	Share premium	Fair value through other comprehensive income reserve	Capital redemption reserve	Statutory surplus reserve	Special reserve	Other reserve	Share option reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (note a)	RMB'000 (note b)	RMB'000 (note c)	RMB'000	RMB'000	RMB'000
At 1 January 2022 (audited)	14,638	1,509,764	(475)	101	520,936	62,947	(312,834)	-	1,805,878	3,600,955
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	-	49,677	49,677
At 30 June 2022 (unaudited)	14,638	1,509,764	(475)	101	520,936	62,947	(312,834)	-	1,855,555	3,650,632
At 1 January 2021 (audited)	14,638	1,509,764	-	101	502,038	62,947	(312,834)	3,216	1,614,093	3,393,963
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	-	52,899	52,899
Transfer	-	-	-	-	8,897	-	-	-	(8,897)	-
At 30 June 2021 (unaudited)	14,638	1,509,764	-	101	510,935	62,947	(312,834)	3,216	1,658,095	3,446,862

Notes:

- (a) As stipulated by the relevant laws and regulations in the People's Republic of China ("PRC"), the PRC subsidiaries of the Company are required to maintain a statutory surplus reserve. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by directors of those subsidiaries annually. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied for conversion into capital by means of capitalisation issue.
- (b) The special reserve represents the deemed contribution arising from acquisition of a subsidiary in 2009.
- (c) The other reserve represents the difference of fair value of consideration paid and the amount of non-controlling interests arising from acquisition of additional interests in a subsidiary in 2017.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	14,154	(155,598)
Investing activities		
New pledged bank deposits placed	(1,758,164)	(1,909,110)
Purchase of property, plant and equipment	(1,511)	(2,356)
Release of pledged bank deposits	1,724,844	1,897,668
Interest received	3,743	4,287
Proceeds from disposal of property, plant and equipment	9	–
Investment income received	–	920
Purchase of other financial assets	–	(50,000)
Redemption of other financial assets	–	50,000
Net cash used in investing activities	(31,079)	(8,591)
Financing activities		
New bank borrowings raised	791,000	700,000
Repayment of bank borrowings	(720,000)	(680,000)
Interest paid	(33,605)	(32,252)
Repayment of lease liabilities	(249)	(264)
Interest for lease liabilities	(38)	(13)
Net cash from (used in) financing activities	37,108	(12,529)
Net increase (decrease) in cash and cash equivalents	20,183	(176,718)
Cash and cash equivalents at beginning of the period	459,272	686,988
Cash and cash equivalents at end of the period, represented by bank balances and cash	479,455	510,270

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of feeder cable series, flame-retardant flexible cable series, optical fibre cable series and related products, new-type electronic components and others for mobile communication and telecommunication equipment. All of the Group's revenue is recognised when the control of goods is transferred, being when the goods are delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customer's premises as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The normal credit term is 180 to 360 days upon delivery. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers upon receipt of goods. The contracts signed with the customers are short-term and fixed price contracts.

For contracts where the credit period provided to customers upon transfer of the associated goods is less than one year, the Group applies the practical expedient of not adjusting the transaction price for significant financing component, if any.

All sales are provided for periods for one year or less. As permitted under HKFRS 15 "Revenue from Contracts with Customers", the transaction price allocated to the unsatisfied contracts is not disclosed.

The Group's chief operating decision maker ("CODM") has been identified as the executive directors of the Company ("Executive Directors") who review the business with the following reportable and segments by products:

- Feeder cable series
- Flame-retardant flexible cable series
- Optical fibre cable series and related products
- New-type electronic components
- Others (including couplers and combiners)

The above segments have been identified on the basis of internal management reports prepared and regularly reviewed by the Executive Directors when making decisions about allocating resources and assessing performance of the Group.

The segment results represent the gross profit earned (loss charged) by each segment (segment revenue less segment cost of goods sold). Other income, impairment losses under expected credit loss ("ECL") model, net of reversal, other gains and losses, selling and distribution costs, administrative expenses, research and development costs, finance costs and taxation are not allocated to each reportable segment. This is the measure reported to the Executive Directors for the purpose of resource allocation and assessment of segment performance.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

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

For the six months ended 30 June 2022

	Feeder cable series <i>RMB'000</i>	Flame- retardant flexible cable series <i>RMB'000</i>	Optical fibre cable series and related products <i>RMB'000</i>	New-type electronic components <i>RMB'000</i>	Others <i>RMB'000</i>	Inter- segment elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover							
— External sales	573,598	481,322	104,575	83,796	1,465	—	1,244,756
— Inter-segment sales*	—	—	29,210	9,375	—	(38,585)	—
	573,598	481,322	133,785	93,171	1,465	(38,585)	1,244,756
Cost of goods sold	(482,151)	(419,662)	(121,311)	(80,405)	(1,358)	38,585	(1,066,302)
SEGMENT RESULT	91,447	61,660	12,474	12,766	107	—	178,454
Unallocated income and expenses:							
Other income							8,917
Impairment losses under ECL model, net of reversal							(12,670)
Other gains							2,071
Selling and distribution costs							(26,421)
Administrative expenses							(19,861)
Research and development costs							(22,876)
Finance costs							(31,615)
Profit before taxation							75,999
Taxation							(26,322)
Profit for the period							49,677

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2021

	Feeder cable series RMB'000	Flame- retardant flexible cable series RMB'000	Optical fibre cable series and related products RMB'000	New-type electronic components RMB'000	Others RMB'000	Inter- segment elimination RMB'000	Total RMB'000
Turnover							
— External sales	442,157	593,653	228,313	58,323	1,923	–	1,324,369
— Inter-segment sales*	–	–	100,182	8,649	–	(108,831)	–
	442,157	593,653	328,495	66,972	1,923	(108,831)	1,324,369
Cost of goods sold	(367,145)	(510,435)	(290,107)	(57,261)	(1,528)	108,831	(1,117,645)
SEGMENT RESULT	75,012	83,218	38,388	9,711	395	–	206,724
Unallocated income and expenses:							
Other income							8,446
Impairment losses under ECL model, net of reversal							(33,648)
Other losses							(1,399)
Selling and distribution costs							(32,447)
Administrative expenses							(21,146)
Research and development costs							(30,744)
Finance costs							(32,420)
Profit before taxation							63,366
Taxation							(10,467)
Profit for the period							52,899

* Inter-segment sales are entered into in accordance with the relevant agreements, if any, governing those transactions, in which the pricing was determined with reference to the cost incurred.

No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment.

Geographical information

Substantially all of the Group's revenue is derived from the PRC and substantially all of its non-current assets are also located in the PRC (the place of domicile).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

4. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Government grants (<i>note</i>)	1,410	2,216
Interest income	6,109	5,103
Investment income from other financial assets	–	920
Others	1,398	207
	8,917	8,446

Note: Included in government grants are RMB27,000 (six months ended 30 June 2021: Nil) subsidies under the Employment Support Scheme provided by the Hong Kong Government, and RMB1,184,000 (six months ended 30 June 2021: RMB2,017,000) incentive provided by the PRC local authorities to the Group for encouragement of business development in the Yixing region. There were no specific conditions attached to the grants, and the Group recognised the grants upon receipts. In respect of the remaining amount of RMB199,000 (six months ended 30 June 2021: RMB199,000), it represents release of government subsidies received for the acquisition of property, plant and equipment.

5. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Impairment losses under ECL model, net of reversal includes the following:		
Impairment losses on trade receivables	(12,670)	(33,648)
Other gains and losses includes the following:		
Exchange gains (losses)	2,071	(1,399)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets (including in selling and distribution costs)	–	7,272
Cost of inventories recognised as expenses	1,061,062	1,113,148
Loss on disposal of property, plant and equipment	6	2
Depreciation of right-of-use assets	1,542	1,316
Short-term lease payments	403	526
Depreciation of property, plant and equipment	10,823	11,102
Less: capitalised in cost of inventories manufactured	(8,850)	(7,569)
	1,973	3,533

7. TAXATION CHARGE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
The charge comprises:		
PRC Enterprise Income Tax	(15,900)	(16,497)
Withholding tax	(11,455)	–
Deferred taxation credit (note 14)	1,033	6,030
Taxation charge for the period	(26,322)	(10,467)

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%, except for 江蘇俊知技術有限公司 (Jiangsu Trigiant Technology Co., Ltd.) ("Trigiant Technology"), a subsidiary of the Company in the PRC, which was endorsed as a High and New Technology Enterprise by relevant authorities in the PRC and was entitled to and was charged income tax in the PRC at a reduced income tax rate of 15% until the next renewal in October 2024.

According to the relevant tax law in the PRC, dividend distributed to foreign investors out of the profit generated from 1 January 2008 onwards shall be subject to withholding tax at 10% and withheld by the PRC entity, pursuant to Articles 3 and 37 of the Enterprise Income Tax Law and Article 91 of its Detail Implementation Rules.

The withholding tax represents the withholding tax charged for the re-organisation incurred during the six months ended 30 June 2022.

No provision for Hong Kong Profits Tax is made in the condensed consolidated financial statements as the Group does not derive assessable profits from Hong Kong for both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

8. DIVIDENDS

The Board does not recommend the declaration of payment of interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

During the current interim period, the Company did not declare any final dividend in respect of the year ended 31 December 2021 (six months ended 30 June 2021: no final dividend declared in respect of the year ended 31 December 2020).

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Earnings:		
Profit for the period attributable to the owners of the Company for the purpose of basic and diluted earnings per share	49,677	52,899
Number of shares:		
Number of ordinary shares for the purpose of basic and diluted earnings per share	1,791,500,000	1,791,500,000

No diluted earnings per share was presented as there were no potential ordinary shares in issue for the six months ended 30 June 2022.

The computation of diluted earnings per share does not assume the exercise of the Company's share options for the prior interim period because the exercise price of those share option was higher than the average market price of the Company's shares during the prior interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

10. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group acquired property, plant and equipment of RMB1,092,000 (six months ended 30 June 2021: RMB2,324,000).

During the current interim period, the Group entered into new lease agreement and recognised right-of-use assets of RMB1,344,000 and lease liabilities of RMB1,344,000.

During the prior interim period, the Group did not enter into any new lease agreement and did not recognise any right-of-use assets nor lease liabilities.

The Group regularly entered into short-term leases for staff quarters and warehouse. As at 30 June 2022, the portfolio of short-term leases is similar to the portfolio of short term leases as compared to 31 December 2021.

11. TRADE AND OTHER RECEIVABLES

The following is an analysis of trade and other receivables and an aged analysis of trade receivables presented based on the invoice date, or otherwise, delivery date, at the end of the reporting period, which approximated the respective revenue recognition dates:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Trade receivables from contracts with customers	4,981,215	4,896,631
Less: allowance for credit losses	(591,587)	(578,917)
	4,389,628	4,317,714
Trade receivables, net, aged		
0-90 days	642,650	817,739
91-180 days	575,585	647,366
181-365 days	1,147,133	1,000,806
Over 365 days	2,024,260	1,851,803
	4,389,628	4,317,714
Interest receivables	8,073	5,707
Other receivables	1,087	2,261
Tender deposits	5,828	5,026
Prepaid expenses	7,474	8,872
Staff advances	2,395	2,250
	4,414,485	4,341,830

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

11. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the Group's trade receivables at 30 June 2022 are bills receivables of RMB8,329,000 (31 December 2021: RMB17,257,000). The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

The Group normally allows a credit period ranging from 180 to 360 days to its customers.

An impairment loss under ECL model, net of reversal of RMB12,670,000 for the six months ended 30 June 2022 (2021H1: RMB33,648,000) has been recognised during the period. As at 30 June 2022, allowance for impairment losses of trade receivables is RMB591,587,000 (31 December 2021: RMB578,917,000).

As at 30 June 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB2,550,709,000 (31 December 2021: RMB2,297,972,000) which are past due as at the reporting date and balance of RMB2,024,260,000 (31 December 2021: RMB1,851,803,000) which are past due 90 days or more. Other than the bills received, the Group does not hold any collateral over these balances.

The Group rebutted the presumption of default under ECL model for trade receivables over 90 days past due based on the long term relationship and continuous business with the Group.

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

12. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables and an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Trade payables, aged		
0–90 days	80,760	251,921
91–180 days	1,076	148,719
181–365 days	38	220,028
	81,874	620,668
Accrued expenses	15,517	13,593
Deposits from suppliers	15,630	12,659
Other payables	6,860	8,816
Other tax payables	4,021	1,991
Payable for acquisition of property, plant and equipment	90	509
Payroll and welfare payables	10,855	18,235
	134,847	676,471

Included in the Group's trade payables at 30 June 2022 are bills presented by the Group to relevant creditors of RMB4,100,000 (31 December 2021: RMB502,898,000). All bills presented by the Group are aged within 365 days and not yet due at the end of the reporting period.

13. BORROWINGS

The Group's borrowings represents bank borrowings of RMB1,336,000,000 (31 December 2021: RMB1,265,000,000) and borrow loans under supplier finance arrangements of RMB490,100,000 (31 December 2021: nil). During the period ended 30 June 2022, the Group has entered into certain bills payables financing arrangements with banks. Under these arrangements, the banks pay suppliers the amounts owed by the Group in advance of the original due dates of the bills payables issued by the Group at a discount offered by the suppliers, and the Group has borne such interest payment. Taking into consideration of the nature and substance of the above arrangements, the Group presents payables to the banks under these arrangements as "borrowings" in the condensed consolidated statement of financial position. In the condensed consolidated statement of cash flows, repayments to the banks are included within financing cash flows based on the nature of the arrangements, and payments to the suppliers by the banks of RMB490,100,000 (31 December 2021: Nil) are disclosed as non-cash transactions.

The borrowings are unsecured and repayable within one year. During the current interim period, the Group obtained new short-term bank borrowings amounting to RMB791,000,000 (six months ended 30 June 2021: RMB700,000,000) and repaid bank borrowings amounting to RMB720,000,000 (six months ended 30 June 2021: RMB680,000,000). The proceeds were used for daily operation of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

14. DEFERRED TAXATION

The following is the deferred tax liabilities (assets) recognised by the Group and movements thereon during the year/period:

	Fair value adjustment on intangible assets <i>RMB'000</i>	Tax on undistributed earnings <i>RMB'000</i>	Allowance for impairment losses on trade receivables <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021 (audited)	3,502	20,356	(90,468)	7,444	(59,166)
(Credited) charged to profit or loss for the period	(3,502)	1,838	2,726	(3,546)	(2,484)
Effect on change in tax rate	–	–	(15,324)	–	(15,324)
At 31 December 2021 (audited)	–	22,194	(103,066)	3,898	(76,974)
(Credited) charged to profit or loss for the period	–	1,129	(1,779)	(383)	(1,033)
At 30 June 2022 (unaudited)	–	23,323	(104,845)	3,515	(78,007)

Others represent the fair value adjustment on property, plant and equipment and allowing for impairment loss on inventory.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
Deferred tax assets	101,330	99,168
Deferred tax liabilities	(23,323)	(22,194)
	78,007	76,974

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

15. SHARE CAPITAL

	Number of shares	Amount in HK\$	Shown in the financial statements as RMB'000
Ordinary shares at HK\$0.01 each			
Authorised:			
At 1 January 2021, 31 December 2021 and 30 June 2022	10,000,000,000	100,000,000	
Issued and fully paid:			
At 1 January 2021, 31 December 2021 and 30 June 2022	1,791,500,000	17,915,000	14,638

16. SHARE OPTIONS

Share option scheme of the Company

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 27 May 2014, the Company adopted a share option scheme (the "Scheme").

Under the Scheme which is valid for a period of ten years commencing on 29 May 2014, the board of directors of the Company may, at its discretion, grant options to subscribe for shares in the Company to eligible participants ("Eligible Participants") who contribute to the long term growth and profitability of the Company. The Eligible Participants include (a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest; (b) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of any member of the Group or any Invested Entity; (e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (f) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and (g) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, in order to provide incentives or rewards for the Eligible Participants' contribution to the Group.

The subscription price for the Company's shares shall be a price at least equal to the highest of the nominal value of the Company's shares, the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of an offer of the grant of the options and the closing price of the Company's shares quoted on the Stock Exchange on the date of an offer of the grant of the options. The options must be taken up within 21 business days from the date of grant upon payment of HK\$1 and are exercisable over a period to be determined and notified by the directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end in any event not later than ten years from the date of adoption of the Scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

16. SHARE OPTIONS *(Continued)*

Share option scheme of the Company *(Continued)*

The initial total number of the Company's shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group (excluding options lapsed in accordance with the terms of the Scheme and any other schemes of the Group) must not in aggregate exceed 10% of the Company's shares in issue as at the date of adoption of the Scheme. The maximum number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Group must not exceed 30% of the Company's shares in issue from time to time. The total number of the Company's shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) under the Scheme or other schemes of the Group in any 12-month period up to the date of grant must not exceed 1% of the Company's shares in issue at the date of grant unless approved by the Company's shareholders in general meeting.

A total of 74,400,000 share options were granted on 20 June 2014 under the Scheme and a total of 8,920,000 share options remained outstanding as at 30 June 2021. The Group did not recognise any share-based payment expense during the six months ended 30 June 2022 (six months ended 30 June 2021: Nil). In respect of each grantee, the share options shall vest in five equal tranches over five years commencing from the date falling on first anniversary of 4 July 2014, being the date of acceptance, as to 20% of the share options for the first tranche (4 July 2015) and 20% of the share options on each of the following four tranches (that is, 4 July 2016, 2017, 2018 and 2019 respectively), subject to the relevant grantee remaining as an eligible person under the Scheme at the time of each vesting of the share options, and the share options vested are exercisable during a two years period commencing from the date of vesting of the relevant share options.

During the current period, no share options were granted, exercised or cancelled under the Scheme (six months ended 30 June 2021: Nil).

A summary of the movements of the number of share options under the Scheme for the period is as follows:

Date of grant	Balance at 1 January 2021	Lapsed during the year	Balance at 31 December 2021 and 30 June 2022	Exercise price	Exercisable period
<i>Granted to directors on</i> 20 June 2014	320,000	(320,000)	–	HK\$3.15	4 July 2019 to 3 July 2021
<i>Granted to employees on</i> 20 June 2014	8,600,000	(8,600,000)	–	HK\$3.15	4 July 2019 to 3 July 2021
Total	8,920,000	(8,920,000)	–		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	30 June 2022 RMB'000	31 December 2021 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at fair value through other comprehensive income	Unlisted equity investments: 475	Unlisted equity investments: 475	Level 3	Share of the adjusted net asset values of the financial assets, determined with reference to the fair values of underlying assets and liabilities and adjustments of related expenses, if any.
Financial assets at fair value through profit or loss ("FVTPL")	Other financial assets: Nil	Other financial assets: Nil	Level 3	Discounted cash flow

There were no transfers between Level 1, 2 and 3 in the current and prior periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets at FVTPL

	Financial asset at FVTPL RMB'000
At 1 January 2022 (audited)	–
Investment income	–
Purchase during the period	–
Total proceeds on redemption	–
At 30 June 2022 (unaudited)	–
At 1 January 2021 (audited)	50,000
Investment income	920
Purchase during the period	50,000
Total proceeds on redemption	(50,920)
At 30 June 2021 (unaudited)	50,000

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the condensed consolidated financial statements approximate their fair values at the end of the reporting period.

18. PLEDGE OF ASSETS

As at 30 June 2022, the pledged bank deposits of RMB243,704,000 (31 December 2021: RMB210,384,000) have been pledged to secure the bills payables at the deposit of RMB230,450,000 (31 December 2021: RMB180,000,000), letters of credit at the deposit of RMB4,000,000 (31 December 2021: RMB19,000,000), quality guarantee and performance guarantee at the deposit of RMB9,254,000 (31 December 2021: RMB11,384,000).

As at 30 June 2022, surety bonds of an aggregate balance of RMB69,758,000 (31 December 2021: RMB70,006,000) were given by a bank in favour of the Group's customers as security for the performance and observance of the Group's obligations under the sales contracts entered into between the Group and the customers. If the Group fails to provide satisfactory performance to the customers to whom the performance guarantees have been given, such customers may demand the bank to pay to them the sum stipulated in such demand. The Group will become liable to compensate such bank accordingly. The performance guarantees will be released upon completion of the sales contract. The performance guarantees were granted under letters of guarantees of the Group and were secured by the Group's pledged bank deposits of RMB9,254,000 (31 December 2021: RMB11,384,000). The management of the Group does not consider it is probable that a claim will be made against the Group in respect of the above quality guarantees and performance guarantees.

19. RELATED PARTY TRANSACTIONS

The Group had no significant transactions and balances with related parties during the Period. The key management personnel of the Group are the directors of the Company. During the six months ended 30 June 2022, directors' emoluments of RMB695,000 (six months ended 30 June 2021: RMB684,000) were paid or payable to the directors of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2022, global inflation remained high and economic growth slowed down due to the overheated US economy, the armed conflict between Russia-Ukraine and the lockdowns which had occurred in some Chinese cities. However, as the COVID-19 pandemic was under control in late May, production activities began to gradually resume. As the top priority of the 14th Five-Year Plan, 5G saw strong development momentum. The Ministry of Industry and Information Technology of China (“MIIT”) focuses on pushing forward with the construction of 5G and gigabit networks. As of the end of June 2022, the total number of mobile communication base stations in the PRC amounted to 10.35 million, a net increase of 387,000 from the end of the previous year. Among them, 5G base stations amounted to 1.854 million, accounting for 17.9% of the total base stations. The number of 5G mobile phone users in the PRC exceeded 450 million, a net increase of 100.55 million over the end of the previous year, accounting for 27.3% of the total mobile phone users. All prefecture-level cities have been fully built into all-optical cities, and the number of gigabit fibre users exceeded 61 million. Efforts were made to build a number of trunk cables for the east-data-west-computing project. According to the estimates of the China Academy of Information and Communications Technology, China has built the world’s largest and technologically advanced network infrastructure. The National Development and Reform Commission stated that investment in new infrastructure maintained steady growth and is expected to increase in the second half of 2022. Major domestic telecommunications operators have successively unveiled tender projects regarding 5G network infrastructure, including the three major telecommunications operators, which contribute approximately 85% of the Group’s sales, and China Tower Corporation Limited* (中國鐵塔股份有限公司) (“China Tower”). The Group is one of the leading manufacturers engaged in research, development, production and sales of feeder cable series, flame-retardant flexible cable series, optical fibre cable series and related products, new-type electronic components and other accessories for mobile communications and telecommunications transmission in the PRC and will benefit from the thriving of the industry as a whole.

As the main core technology of digital transformation, 5G technology is essential for digital transformation of various industries. Currently, 5G integrated applications empower industry, medical care, education, transportation and many other sectors, covering 40 categories of the Chinese national economy. In addition, the metaverse is an ongoing hot topic, and the concept is constantly being catalysed. The 5G/6G network provides the metaverse with high-speed, low-latency, and large-scale access and transmission channels, becoming the key to achieving breakthroughs in the expansion of the metaverse. As a core product provider for the construction of 4G and 5G base stations, the Group believes it will continuously benefit from this wave.

Forward Industry Research Institute predicts that although the construction of 5G macro base stations is now ahead of 5G small base stations, the construction of 5G small cell base stations will usher in the peak period in 2024. Moreover, ABI Research estimates that the global small cell base station market will reach US\$25 billion in the next five years. According to the statistics of the Global System for Mobile Communications (“GSMA”), the number of 5G connections in 2019 was merely 10 million, but will increase rapidly to about 2 billion by 2025. The growth of the 5G small cell base station market should not be underestimated. China has basically completed continuous 5G outdoor coverage. In the next step, indoor coverage and deep coverage will become new trends in 5G network construction, and 5G small cell base stations will become the focus of the upcoming 5G network construction. The Group has actively mapped out a plan on transmission solutions for small cell base stations and has been following up on relevant tenders in a timely manner.

MANAGEMENT DISCUSSION AND ANALYSIS

As the large-scale commercial use of 5G is gradually being deployed in the future, sub-6GHz and millimeter wave (mmWave) need to work together to create a more comprehensive 5G experience. Featuring high bandwidth, large capacity, easy integration with beam forming, as well as ultra-low latency, 5G mmWave can deliver larger available bandwidth and higher transmission rate, which is conducive to the development of industries, such as industrial Internet of Things ("IoT"), intelligent manufacturing, real-time computing and cloud computing. At the same time, mmWave can support dense area deployment for high-precision positioning and has a high level of integration with equipment, which is beneficial to facilitate the miniaturisation of base stations and terminals. According to GSMA and related market research agencies, 5G mmWave is expected to contribute US\$565 billion to the global GDP by 2035, accounting for 25% of the total 5G contribution. The economic benefit arising from the use of 5G mmWave bands in China is expected to reach approximately US\$104 billion by 2034. The Group, a pioneer in the mmWave market with leading cutting-edge technologies, has successfully developed multi-band mmWave products, including 6-50 PIN GHZ SPDT switches, 42.5-43.2 GHz transceiver modules, and 12-44 GHz up-converter/built-in phase-locked loop frequency synthesis local oscillator. These products have effectively replaced the import of similar products, breaking the foreign monopoly and filling the domestic gap. The product performance is ahead of the domestic market and on par with the international standard. During the Period, the Group completed the addition of mmWave products on the Chinese version of the Group's website. At present, a group of potential customers have contacted the mmWave construction team through this e-commerce website. The English version of the website is in the trial operation stage. The Group will develop more local and overseas market in the future. The Group will actively increase its presence in the mmWave field and will keep promoting such business development in the future.

During the Period, the Group has actively participated in bidding projects. For instance, it has won the bid for the centralised procurement project of China Telecom's cable products (power and cables), laying the foundation for sustainable business development.

RESULTS ANALYSIS

In the first half of 2022, the recurring COVID-19 epidemic in Mainland China has affected the recovery of the overall economic environment, and the Group's performance was inevitably affected. The Group's turnover slightly decreased by approximately RMB79.6 million, or 6.0%, to approximately RMB1,244.8 million for the first half of 2022.

The profit for the period of the Group decreased by approximately RMB3.2 million, or approximately 6.1%, from approximately RMB52.9 million in 2021H1 to approximately RMB49.7 million in 2022H1. The earnings per share decreased from approximately RMB2.95 cents in 2021H1 to approximately RMB2.77 cents in 2022H1.

Breakdown of Turnover by Products

	Six months ended 30 June			
	2022 RMB'000	2021 RMB'000	Change RMB'000	Change %
Feeder cable series	573,598	442,157	131,441	+29.7%
Flame-retardant flexible cable series	481,322	593,653	(112,331)	-18.9%
Optical fibre cable series and related products	104,575	228,313	(123,738)	-54.2%
New-type electronic components	83,796	58,323	25,473	+43.7%
Other accessories	1,465	1,923	(458)	-23.8%
Total	1,244,756	1,324,369	(79,613)	-6.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Feeder Cable Series — Approximately 46.1% of the Total Turnover

The turnover of feeder cable series increased by approximately 29.7% to approximately RMB573.6 million for the Period as compared to the corresponding period in last year. The sales volume of the Group's feeder cable series products increased by approximately 1,800 kilometres to approximately 49,600 kilometres as compared to the corresponding period in last year. As a result of the higher costs of operation due to the COVID-19 pandemic during the Period, the gross profit margin decreased by approximately 1.1 percentage points to approximately 15.9% as compared to the corresponding period in last year.

Flame-retardant Flexible Cable Series — Approximately 38.7% of the Total Turnover

Flame-retardant flexible cable series, a major product of the Group, are mainly used as an internal connection cable for power systems or mobile cable transmission and distribution systems. The turnover decreased by approximately 18.9% to approximately RMB481.3 million for the Period as compared to the corresponding period in last year. As a result of the higher costs of operation due to the COVID-19 pandemic during the Period, the gross profit margin decreased by 1.2 percentage points to approximately 12.8% as compared to the corresponding period in last year.

Optical Fibre Cable Series and Related Products — Approximately 8.4% of the Total Turnover

Due to the keen price competition, the turnover of optical fibre cable series and related products decreased by approximately 54.2% to approximately RMB104.6 million as compared to the corresponding period in last year. Sales volume of optical fibre decreased by approximately 3,498,000 fibre kilometres to approximately 1,295,000 fibre kilometres as compared to the corresponding period in last year. The gross profit margin decreased by approximately 4.9 percentage points to approximately 11.9% as a result of the change in sales mix.

Major Customers and Sales Network

The Group has long been a major supplier to the three major telecommunications operators, namely China Mobile Communications Corporation* (中國移動通信集團公司) ("China Mobile"), China United Network Communications Limited* (中國聯合網絡通信股份有限公司) ("China Unicom") and China Telecommunications Corporation* (中國電信集團公司) ("China Telecom"), and also telecommunications equipment manufacturers such as Huawei, ZTE in the PRC and maintained a good relationship with them leveraging on its reputation in the industry for its diverse products portfolio, excellent product quality, comprehensive and efficient aftersales services, and regional network extensive coverage. During the Period, the overall turnover of the Group derived from China Mobile, China Unicom and China Telecom accounted for approximately 37.5%, 36.2% and 11.8%, respectively, of the total turnover of the Group. In addition to the close cooperation with the three major telecommunication operators in the PRC, the Group also maintained a sound business relationship with China Tower. As at 30 June 2022, the Group was a supplier to 25 out of the 31 provincial subsidiaries of China Tower.

MANAGEMENT DISCUSSION AND ANALYSIS

Marketing Strategy

Leveraging on finance cost advantages to actively support the development of China's telecommunications industry; focusing on expansion of telecommunications business through scientific research capability and winning customer trust with quality

Since the inception of the Group, overall around 90% of its annual sales have been made to the three major telecommunications operators in China and (the subsequently established) China Tower. From the 3G and 4G eras to the official kick-off of the era of 5G commercialisation in China in 2019, the Group, as a supplier of base station and communication network construction products including feeder cable, optical and electrical hybrid cables and flame-retardant flexible cables, has been benefiting from China's rapid development of the network construction and is one of the key beneficiary enterprises in the industry. To promote the efficiency and effectiveness of telecommunications infrastructure construction as well as to provide strong support to the high-quality development of China's telecommunications industry, as part of its marketing strategies, so as to gain market share and maintain a long-term sound cooperative relationship with the customers, there had been long repayment period from the key customers of the Group, being China's three major telecommunications operators and China Tower, in line with the high growth of their network construction. Since the establishment of the Company and up to date, as part of its marketing strategies, the Group generally grants its customers a credit period ranging from 180 days to 360 days, leading to Group's relatively longer period of turnover days of accounts receivables. In recent years, the turnover days for trade and bills receivables is more than one year. Meanwhile, the proportion of trade receivables in the total assets of the Group is relatively high as a result of the said marketing strategy for supporting the network investment of China's three major telecommunications operators and China Tower. With an emphasis on scientific research and development in the telecommunications industry, the Group makes significant annual investment in research and development, and focuses on the sales of telecommunications equipment to improve the competitiveness of the Group. In terms of overseas sales, the Group strives to win the trust of customers with quality, and is highly cautious in handling accounts receivable from overseas customers. It is expected that the Group will maintain the relevant policies in the 5G era, while expanding sales channels of the Group and seeking growth opportunities for business development.

Patents, Awards and Recognition

As at 30 June 2022, the Group has obtained 189 patents, including 64 invention patents and 125 utility model patents in the PRC. The Group received various awards and honours which included the following:

- according to the statistics from the Optical Fiber and Electric Cable Sub-association of the China Electronic Components Association (中國電子元件行業協會光電線纜分會), Trigiant Technology ranked first in terms of sales volume of feeder cable among the feeder cable manufacturers in the PRC for several consecutive years since 2010;
- Trigiant Technology was awarded the National Enterprise Technology Center and the Jiangsu Outstanding Contribution Manufacturer Award;
- Trigiant Optic-Electric was awarded as Jiangsu Enterprise Technology Center;
- Trigiant Technology and Trigiant Optic-Electric have been rated AAA (Integrated Credit) by China's Lianhe Credit Information Service Co., Ltd, Jiangsu Branch in 2020; and
- Trigiant Technology was awarded the National-level Specialized and New "Small Giant" Enterprise by the Ministry of Industry and Information Technology in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects and Future Plans

Looking ahead, due to the complex and changing global political and economic environment, China will face challenges such as COVID-19 uncertainties and supply chain disruptions. However, with the in-depth advancement of 5G in China, empowering a large number of industries, 5G applications officially get in the fast lane of development, and the market demand for related equipment will remain strong. During the large-scale commercial use of 5G, China Mobile released the 6G Network Architecture White Paper in June 2022, proposing the first systematic 6G network architecture design, and aiming to bring a 6G network to the market around 2030. It is expected that the development of 6G networks will enter a strategic window period in the next three to five years, which will promote the evolution of mobile communication networks to the next generation. In the meantime, the pandemic has catalysed demand for technologies such as augmented reality (“AR”) and virtual reality (“VR”). Major companies and local governments announced plans to strengthen their focus on the development of the metaverse in the second half of 2022. The demand for communication products with high data transmission rate, low latency and multiple connections will continuously increase. The pace of 5G commercialisation, 6G vision and metaverse development in the communications industry will be accelerated in the second half of 2022. The Group will keep a close eye on the changes in the economic environment, actively respond to and seize the huge opportunities under the current wave of 5G infrastructure. On this basis, it will explore new technologies related to the construction of 5G and 6G base stations, striving to meet the needs to bring and upgrade customer experience.

1. *Grasping opportunities arising from mmWave to actively promote the research and development and sales of related products*

Due to the three advantages of high transmission rate, high-precision positioning and wide bandwidth, mmWave can better meet the performance requirements in emerging fields, such as AR, VR and smart IoT systems in the future. With the expansion of mmWave applications, the Group will continuously leverage its leading expertise and innovation capabilities and dedicate more resources to the research and development of mmWave products, step up the training on the mmWave research and development team, and recruit more senior engineers with independent development and marketing capabilities. Riding on its own technological advantages, the Group continuously strengthens the development and launch of other products in the “5G mmWave product package”, including 24-50 GHz amplifiers. The Group is also capable to promote the development of products in higher mmWave frequency bands, which will meet the requirement for millisecond-level latency in AR and VR services. Furthermore, the Group will focus more on the marketing and sales strategies for mmWave products, in order to gradually enter the active sales stage.

2. *Orderly development of IoT business*

As 5G is gradually commercialised and applied in all walks of life, the new generation of information technologies collaborating with 5G, such as cloud computing, big data and IoT, will be further integrated with society. The development of 5G will bring opportunities to the communications industry in infrastructure construction and maintenance, and application services for vertical industries. According to the research data from the research firm International Data Corporation (IDC), the global IoT market is expected to exceed US\$1.1 trillion by 2026, and China’s IoT market is expected to reach US\$294 billion, making it the world’s largest IoT market. In order to capture the huge business opportunities in IoT-related industries, the Group has actively teamed up with the Institute of Forest Resource Information Techniques of the Chinese Academy of Forestry and the Wuxi branch of China Telecom to jointly establish the National Innovation Alliance of IoT and AI for Forestry and Grassland, which is progressing in an orderly manner. It will promote the development of basic theories and innovative applications of the IoT and AI technology in forestry and grassland, laying a solid foundation for the Group’s diversified development.

MANAGEMENT DISCUSSION AND ANALYSIS

3. *Expansion to reach new customers*

In addition to maintaining close relationships with existing partners, such as the three major telecommunications operators, China Tower, ZTE and Huawei, the Group is actively building new partnerships with well-known academic institutes and enterprises in China. We also attach importance to the development of overseas business. The Group is working closely with renowned overseas companies to build 5G network infrastructure and accelerate the development of 5G.

4. *Active expansion in overseas markets*

Currently, many countries around the world have deployed 5G mmWave networks and launched intelligent terminals that support 5G mmWaves. The Group will seize the overseas market opportunities, maintain and develop markets with stable customers and demands in Thailand, South Korea and other countries. The Group did not attend face-to-face exhibitions overseas amid the pandemic and instead, participated in online exhibitions. The Group plans to participate in four overseas customer-centric meetings in the second half of 2022, namely the Asian session and Euramerican session of a communications and information technology exhibition in Jiangsu, the Belt and Road session of digital trade in Jiangsu, and a session on carrier-grade infrastructure for South America in Jiangsu, with a view to further expanding overseas markets. The Group is committed to introducing existing products to the market, including optoelectronic hybrid cables and mmWave series products, to further expand its business territory.

Financial Review

Turnover

In the first half of 2022, the recurring COVID-19 epidemic in Mainland China has affected the recovery of the overall economic environment, and the Group's performance was inevitably affected. Turnover decreased by approximately RMB79.6 million, or 6.0%, from approximately RMB1,324.4 million for 2021H1 to approximately RMB1,244.8 million for the first half of 2022. The decrease in turnover was mainly contributed by the decrease in turnover of optical fibre cable series and flame-retardant flexible cable series of approximately RMB123.7 million and RMB112.3 million respectively but offset by the increase in turnover of feeder cable series and new-type electronic components, of approximately RMB131.4 million and RMB25.5 million respectively.

Cost of goods sold

For both periods, cost of materials consumed remained the major component of the cost of goods sold. Cost of goods sold decreased generally in line with the decrease in turnover by approximately RMB51.3 million, or 4.6%, from approximately RMB1,117.6 million for 2021H1 to approximately RMB1,066.3 million for 2022H1.

Metal raw materials during the Period such as copper, being the main raw materials for the Group's feeder cable series and flame-retardant flexible cable series increased by 7.8% as compared to 2021H1 and the average selling price increased generally in line with the copper price. The Group adopted the cost-plus-pricing-model for its feeder cable series products to control the price risk of raw materials and maintained good relationship with its customers and suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

Gross profit decreased by approximately RMB28.3 million, or 13.7%, from approximately RMB206.7 million for 2021H1 to approximately RMB178.5 million for the first half of 2022. Overall gross profit margin decreased from approximately 15.6% for 2021H1 to approximately 14.3% for the first half of 2022. The decrease in overall gross profit margin is mainly a result of the impact from the keen price competition in the optical fibre cable series products during the Period.

Other income

Other income increased by approximately RMB0.5 million, or 5.6%, from approximately RMB8.4 million for 2021H1 to approximately RMB8.9 million for 2022H1 primarily due to the increase in interest income.

Impairment losses

Impairment losses under expected credit loss model net of reversal, on trade receivables, decreased by approximately RMB21.0 million, or approximately 62.3% from a loss of approximately RMB33.6 million for 2021H1 to a loss of approximately RMB12.7 million for 2022H1, mainly due to a slower growth in the total amount of trade receivable as compared with that in 2021H1.

Other gains and losses

Other losses were recorded of approximately RMB1.4 million for 2021H1 as compared to other gains of approximately RMB2.1 million in 2022H1, mainly attributable to an exchange loss of approximately RMB1.4 million recorded in 2021H1 as compared to an exchange gain of approximately RMB2.1 million in 2022H1.

Selling and distribution costs

Selling and distribution costs decreased by approximately RMB6.0 million, or 18.6%, from approximately RMB32.4 million for 2021H1 to approximately RMB26.4 million for 2022H1 mainly due to the decrease in intangible asset amortisation expense.

Administrative expenses

Administrative expenses decreased by approximately RMB1.3 million, or 6.1%, from approximately RMB21.1 million for 2021H1 to approximately RMB19.9 million for 2022H1 mainly due to the decrease in entertainment and travelling expense of administrative staff.

Research and development costs

Research and development costs decreased by approximately RMB7.9 million, or 25.6%, from approximately RMB30.7 million for 2021H1 to approximately RMB22.9 million for 2022H1 primarily due to the decrease in research budget in optical fibre cable series and related products.

Finance costs

Finance costs decreased by approximately RMB0.8 million, or 2.5%, from approximately RMB32.4 million for 2021H1 to approximately RMB31.6 million for 2022H1 primarily due to the decrease in the average interest rate of borrowings. As compared with 2021H1, the overall bank borrowings interest rate has decreased in 2022H1. On the other hand, the bills payables financing has enjoyed a lower interest rate than corporate loans in general.

MANAGEMENT DISCUSSION AND ANALYSIS

Taxation

Taxation charge increased by approximately RMB15.9 million, or 151.5%, from approximately RMB10.5 million for 2021H1 to approximately RMB26.3 million for 2022H1. For 2021H1, the deferred tax impact on allowance for impairment losses on trade receivable was larger than the PRC Enterprise Income Tax (“EIT”) for that period, therefore the Group recorded a deferred tax credit for that period. The Group’s EIT arises from its principal subsidiaries in the PRC. Under the Law of the People’s Republic of China on Enterprise Income Tax (“EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%, except for 江蘇俊知技術有限公司 (Jiangsu Trigiant Technology Co., Ltd.) (“Trigiant Technology”), a subsidiary of the Company in the PRC, which was endorsed as a High and New Technology Enterprise by relevant authorities in the PRC and was entitled to and was charged income tax in the PRC at a reduced income tax rate of 15% until the next renewal in October 2024. The increase in taxation charge for the first half of 2022 is primarily attributable to the decreased in deferred tax impact from the impairment losses of goodwill and impairment losses on trade receivables, and the withholding tax charged for the re-organisation plan which took place during 2022H1.

Profit for the period

As a combined result of the foregoing, the profit for the period of the Group decreased by approximately RMB3.2 million, or approximately 6.1%, from approximately RMB52.9 million in 2021H1 to approximately RMB49.7 million in 2022H1. The net profit margin remained at 4.0% (2021H1: 4.0%).

Liquidity, Financial Resources and Capital Structure

The operation of the Group is generally financed through a combination of shareholders’ equity, internally generated cash flows and borrowings. In the long term, the operation of the Group will be funded by internally generated cash flows and, if necessary, by additional equity financing and borrowings.

The following table summarises the cash flows for the six months ended 30 June 2022 and 2021:

	Six months ended 30 June	
	2022	2021
	RMB’000	RMB’000
Net cash from (used in) operating activities	14,154	(155,598)
Net cash used in investing activities	(31,079)	(8,591)
Net cash from (used in) financing activities	37,108	(12,529)

As at 30 June 2022, the Group had bank balances and cash and pledged bank deposits of approximately RMB723.2 million, the majority of which were denominated in Renminbi. As at 30 June 2022, the Group had total borrowings of approximately RMB1,826.1 million which included bank borrowings of RMB1,336.0 million and borrowings under bills payables financing arrangements of RMB490.1 million, which are repayable within one year. As at 30 June 2022, RMB786.0 million of the total bank borrowings were fixed rate borrowings, approximately RMB550.0 million were variable rate borrowings and approximately RMB490.1 million were fixed rate discounted bills payables classified as borrowings. As at 30 June 2022, borrowings of approximately RMB1,826.1 million were denominated in Renminbi.

MANAGEMENT DISCUSSION AND ANALYSIS

For 2022H1, the Group had recorded (a) an increase in borrowings of approximately RMB561.1 million, whereby total borrowings as at 30 June 2022 was approximately RMB1,826.1 million when compared to the total borrowings at 31 December 2021 of approximately RMB1,265.0 million; and (b) on the other hand, a decrease in trade and other payables of approximately RMB541.7 million, whereby trade and other payables as at 30 June 2022 was approximately RMB134.8 million when compared to trade and other payables as at 31 December 2021 of approximately RMB676.5 million. The fluctuation was because the Group has entered into bills payables financing arrangements with banks and has borne such interest payment for a better trading term with those suppliers. Under these arrangements, the banks pay suppliers the amounts owed by the Group in advance of the original due dates of the bills payables issued by the Group at a discount offered by the suppliers. In 2022H1, taking into consideration the nature and substance of the above arrangements, the Group presents these bills payables of RMB490.1 million (31 December 2021: Nil) to the banks under these arrangements as “borrowings” in the condensed consolidated statement of financial position.

The majority of the Group’s transactions are denominated in Renminbi and, accordingly, the Group has not entered into any financial instrument for hedging foreign currency exposure. The Group currently does not have any foreign currency hedging policy but will consider hedging its foreign currency exposure should the need arise.

Gearing Ratio

Gearing ratio increased from approximately 16.5% as at 31 December 2021 to approximately 30.2% as at 30 June 2022. Such increase was primarily resulted from the impact of the bills payables financing classified as borrowings in 2022H1. Gearing ratio is calculated by dividing total borrowings net of pledged bank deposits and bank balances and cash over total equity.

Pledge of Assets

As at 30 June 2022, the Group pledged certain bank deposits with carrying value of approximately RMB243.7 million (31 December 2021: approximately RMB210.4 million) to certain banks to secure credit facilities granted to the Group and performance bond.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2022.

Employee Information

As at 30 June 2022, the Group had approximately 834 (31 December 2021: 963) employees. In order to enhance the morale and productivity of employees, employees are remunerated based on their performance, experience and prevailing industry practices. Compensation policies and packages of management staff and functional heads are being reviewed on a yearly basis. In addition to basic salary, performance related salary may also be awarded to employees based on internal performance evaluation. Moreover, the Company adopted a share option scheme in May 2014 which allows the Company to grant share options to, among other persons, its directors and employees in order to retain elite personnel to stay with the Group and to provide incentives for their contribution to the Group.

The Group also invests in continuing education and training programmes for management staff and other employees with a view to upgrading their skills and knowledge. These training courses comprise internal courses run by the management of the Group and external courses provided by professional trainers and range from technical training for production staff to financial and administrative trainings for management staff.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the declaration of payment of interim dividend for the six months ended 30 June 2022 (2021H1: Nil).

CORPORATE GOVERNANCE

The Company adopted the Corporate Governance Code as set out in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") ("Corporate Governance Code") as its own code of corporate governance. The Directors consider that save for the deviation from code provision C.2.1 of the Corporate Governance Code which requires the segregation of the roles of the chairman of the board and chief executive officer, both of which are currently taken up by Mr. Qian Lirong, further details of which are set out in the section headed "Corporate governance report" of the 2021 annual report of the Company, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the Corporate Governance Code during the six months ended 30 June 2022 and the Directors will use their best endeavours to procure the Company to comply with such code and make disclosure of deviation from such code in accordance with the Listing Rules.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended 30 June 2022.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2022. In addition, the Group had no significant investments held during the six months ended 30 June 2022.

SHARE OPTION SCHEME

Pursuant to a resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 27 May 2014, the Company adopted the Scheme to allow the Group to grant options to eligible participants to entitle them to subscribe for new shares as incentives or rewards for their contribution to the Group.

Further details of the Scheme and the share options granted are disclosed in Note 16 of the Notes to the condensed consolidated financial statements.

OTHER INFORMATION

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

As at 30 June 2022, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), Chapter 571 of the Laws of Hong Kong) of the Company as recorded in the register required to be kept under section 352 of the SFO, or which otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

Long Positions

Interests in the shares and underlying shares of the Company

Name of Director	Nature of interest	Interest in ordinary shares	Interest in underlying shares	Total of shares and underlying shares	Approximate percentage of interest <i>(Note b)</i>
Mr. Qian Lirong	Interest in controlled corporation	523,521,750 <i>(Note a)</i>	–	523,521,750	29.22%

Notes:

- (a) These shares are registered in the name of Trigiant Investments Limited ("Trigiant Investments"), a company wholly owned by Abraholme International Limited ("Abraholme") which is in turn wholly owned by Mr. Qian Lirong. By virtue of the provisions in Part XV of the SFO, Mr. Qian Lirong is deemed to be interested in all the shares held by Trigiant Investments and Abraholme. Mr. Qian Lirong is a director of each of Trigiant Investments and Abraholme.
- (b) The total number of 1,791,500,000 shares of the Company in issue as at 30 June 2022 has been used for the calculation of the approximate percentage.

Save as disclosed above, as at 30 June 2022, none of the Directors and chief executives of the Company, or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company and associated corporations.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2022, the register of substantial shareholders maintained by the Company under section 336 of the SFO recorded that the following persons/entities, other than the Directors or the chief executive of the Company, had an interest or a short position in the shares or underlying shares of the Company:

Long Positions

Name of shareholder	Nature of interest	Total of shares and underlying shares	Approximate percentage of interest (Note g)
Trigiant Investments	Beneficial owner	523,521,750	29.22%
Abraham Holme	Interest in controlled corporation	523,521,750 (Note a)	29.22%
Madam Qian Jindi	Interest of spouse	523,521,750 (Note b)	29.22%
Eternal Asia (HK) Limited	Beneficial owner	292,876,000 (Note c)	16.35%
Shenzhen Eternal Asia Supply Chain Management Ltd. ("Eternal Asia")* 深圳市怡亞通供應鏈股份有限公司	Interest in controlled corporation	292,876,000 (Note c)	16.35%
Shenzhen Investment Holding Limited ("Shenzhen Holding")* 深圳市投資控股有限公司	Interest in controlled corporation	292,876,000 (Note c)	16.35%
State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipal* 深圳市人民政府國有資產監督管理委員會	Interest in controlled corporation	292,876,000 (Note c)	16.35%
People's Bank of China	Interest in controlled corporation	261,000,000 (Note d)	14.57%
中國進出口銀行深圳分行	Person having a security interest in shares	261,000,000 (Note e)	14.57%
Easy Beauty Limited	Beneficial owner	428,000,000 (Note f)	23.89%

OTHER INFORMATION

Name of shareholder	Nature of interest	Total of shares and underlying shares	Approximate percentage of interest <i>(Note g)</i>
Artemis Delight Limited	Interest in controlled corporation	428,000,000 <i>(Note f)</i>	23.89%
Mr. Dai Xiaolin	Interest in controlled corporation	428,000,000 <i>(Note f)</i>	23.89%

Notes:

- (a) These shares are registered in the name of Trigiant Investments, a company wholly owned by Abraholme, which is wholly owned by Mr. Qian Lirong. Under the SFO, each of Mr. Qian Lirong and Abraholme is deemed to be interested in all the shares held by Trigiant Investments. Mr. Qian Lirong is a director of each of Trigiant Investments and Abraholme.
- (b) Madam Qian Jindi is the spouse of Mr. Qian Lirong and under the SFO, she is deemed to be interested in all the shares in which Mr. Qian Lirong is interested or deemed to be interested.
- (c) Pursuant to notice of disclosure of interest of State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipal filed on 14 May 2021, the controlled corporation of State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipal (namely Shenzhen Holding) increased its interests in Eternal Asia (a corporation, indirectly holding 292,876,000 shares in the listed corporation) to 18.30% after completion of share transfers on 22 August 2018 and 18 October 2018 respectively. On 24 December 2018, Eternal Asia became a controlled corporation of Shenzhen Holding as Eternal Asia and its directors were accustomed to act in accordance with Shenzhen Holding's directions. Eternal Asia (HK) Limited is wholly owned by Eternal Asia and, Shenzhen Holding is wholly owned by State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipal.
- (d) Based on the notice of disclosure of interests dated 31 March 2016 of the People's Bank of China filed with the Stock Exchange, these interests in shares are registered in the name of 中國進出口銀行, a company owned by the People's Bank of China as to 98%.
- (e) Based on the notices of disclosure of interests dated 25 February 2019 of 中國進出口銀行深圳分行 filed with the Stock Exchange, these interests in shares are registered in the name of 中國進出口銀行深圳分行.
- (f) Based on the notices of disclosure of interests dated 24 December 2018 of Easy Beauty Limited, Artemis Delight Limited and Mr. Dai Xiaolin each filed with the Stock Exchange, these interests in shares are registered in the name of Easy Beauty Limited, a company owned as to 70% by Artemis Delight Limited, which in turn is wholly owned by Mr. Dai Xiaolin.
- (g) The total number of 1,791,500,000 shares of the Company in issue as at 30 June 2022 has been used for the calculation of the approximate percentage.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

There were no changes to the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2021 annual report of the Company.

OTHER INFORMATION

AUDIT COMMITTEE

An audit committee of the Board (“Audit Committee”) has been established with written terms of reference to, among other matters, review and supervise the financial reporting process, internal control and risk management systems of the Group. As at the date of this report, the Audit Committee comprises all independent non-executive Directors, namely Mr. Chan Fan Shing, Professor Jin Xiaofeng and Mr. Chen Gang. Mr. Chan Fan Shing is the chairman of the Audit Committee. The interim results of the Group for the first half of 2022 have been reviewed by the Audit Committee.

The Company’s independent auditor, Deloitte Touche Tohmatsu, has conducted a review of the interim financial information of the Group for the first half of 2022 in accordance with Hong Kong standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

On behalf of the Board

Qian Lirong

Chairman

Hong Kong, 26 August 2022