POTEL 普天集团

普天通信集團有限公司
PUTIAN COMMUNICATION GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)
Stock code: 1720

2022 ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Wang Qiuping
(Chairlady and Chief Executive Officer)
Mr. Zhao Xiaobao (alias Zhao Baohua)
Ms. Zhao Moge

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cheng Shing Yan
Mr. Liu Guodong
Mr. Xie Haidong

AUDIT COMMITTEE

Ms. Cheng Shing Yan *(Chairlady)*
Mr. Liu Guodong
Mr. Xie Haidong

REMUNERATION COMMITTEE

Mr. Liu Guodong *(Chairman)*
Ms. Cheng Shing Yan
Mr. Xie Haidong

NOMINATION COMMITTEE

Mr. Xie Haidong *(Chairman)*
Ms. Cheng Shing Yan
Mr. Liu Guodong

COMPANY SECRETARY

Ms. Lai Yeung Fun

AUTHORISED REPRESENTATIVES

Ms. Wang Qiuping
Ms. Lai Yeung Fun

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 702, Golden Centre
188 Des Voeux Road Central, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 8899 ChangDong Avenue
Hi-tech Development Zone
Nanchang, Jiangxi Province
The PRC

AUDITOR

Moore Stephens CPA Limited
Certified Public Accountants and Registered Public Interest Entity Auditor

LEGAL ADVISER AS TO HONG KONG LAWS

Winston & Strawn

PRINCIPAL BANKERS

Bank of China (Nanchang Xihu Branch)
Bank of Communication (Jiangxi Branch)
China Everbright Bank Co., Ltd

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

WEBSITE

www.potel-group.com

STOCK CODE

1720

COMPANY PROFILE

Putian Communication Group Limited (the "**Company**") (Stock code: 1720) (together with its subsidiaries, collectively referred to as the "**Group**") is a well-established and fast-growing communication cable manufacturer and structured cabling system product provider based in Jiangxi Province, the PRC.

The Group has commenced its communication cable manufacturing since 2001. It provides a wide range of optical fiber cables, communication copper cables and structured cabling system products under the brand names of "普天汉飞" and "Hanphy". Its optical fiber cables and communication copper cables are mainly used by major telecommunications network operators in the PRC for network construction and maintenance. Its structured cabling system products primarily include optical and copper jumper wires and connection and distribution components such as distribution frames, wiring closets, as well as data and audio modules and faceplates. Structured cabling system products are components of the wiring system, including optical fiber-based cabling system and copper-based system, within buildings for the information transmission. The Group is one of the most diversified suppliers in the communication cable industry in the PRC. Its superior product quality, constant availability, responsive customer services and competitive prices are well recognised by its customers.

The Group continues to strengthen its research and development capabilities which have enabled it to continuously develop new products and upgrade its existing products. Since 2006, one of the Group's major wholly owned subsidiaries, Putian Cable Group Co., Ltd, has been consecutively recognised as a New High-tech Enterprise by Jiangxi Provincial Department of Science and Technology.

On 9 November 2017 (the "**Listing Date**"), the shares of the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). As at 31 December 2022, the Company had 1,100,000,000 issued shares.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2022, the Group's operating results were summarised as follows:

- Total revenue increased by approximately 3.5% to approximately RMB646.3 million (2021: approximately RMB624.5 million).
- Gross profit increased by approximately 1.8% to approximately RMB147.0 million (2021: approximately RMB144.4 million).
- Gross profit margin decreased by approximately 0.3% to approximately 22.8% (2021: approximately 23.1%).
- Profit for the year attributable to the owners of the Company decreased by approximately 43.9% to approximately RMB24.7 million (2021: approximately RMB44.0 million).
- Revenue from sale of optical fibers and optical fiber cables recorded an increase of approximately 71.9% to approximately RMB201.5 million (2021: approximately RMB117.2 million); revenue from sale of communication copper cables decreased by approximately 15.9% to approximately RMB296.8 million (2021: approximately RMB353.1 million); revenue from sale of structured cabling system products decreased by approximately 4.1% to approximately RMB147.9 million (2021: approximately RMB154.2 million).
- The board of directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and as appropriate, is set out below.

RESULT

	For the year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**646,253**	624,540	544,059	768,322	784,997
Profit before income tax expense	**34,853**	56,175	40,242	83,698	104,678
Income tax expense	**(10,173)**	(12,172)	(7,950)	(16,946)	(19,685)
Profit for the year	**24,680**	44,003	32,292	66,752	84,993
Profit for the year attributable to:					
Owners of the Company	**24,680**	44,003	32,292	66,752	84,993
Non-controlling interests	**–**	–	–	–	–
	24,680	44,003	32,292	66,752	84,993

ASSETS AND LIABILITIES

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,181,581**	1,007,084	843,848	802,522	631,640
Total liabilities	**(611,169)**	(464,292)	(343,607)	(333,739)	(226,674)
	570,412	542,792	500,241	468,783	404,966
Equity attributable to owners of the Company	**570,412**	542,792	500,241	468,783	404,966
Non-controlling interests	**–**	–	–	–	–
	570,412	542,792	500,241	468,783	404,966

CHAIRMAN'S STATEMENT

Wang Qiuping
Chairlady

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I am pleased to present the annual results of the Group for the year ended 31 December 2022 (the "**Year**").

PERFORMANCE REVIEW

The Group recorded a total revenue of approximately RMB646.3 million for the Year, which represented an increase of approximately 3.5% as compared with the one for the Last Year. The Group realised a gross profit of approximately RMB147.0 million for the Year, which represented an increase of approximately 1.8% as compared with the one for the Last Year. Profit for the Year attributable to the owners of the Company was approximately RMB24.7 million, which represented a decrease of approximately 43.9% as compared with the one for the Last Year.

The increase in revenue was mainly attributable to the increase sale of optical fibers and optical fiber cables increased by approximately 71.9% to approximately RMB201.5 million for the Year (the Last Year: approximately RMB117.2 million). Sale of communication copper cables decreased by approximately 15.9% to approximately RMB296.8 million for the Year (the Last Year: approximately RMB353.1 million). The sale of structured cabling system products decreased by approximately 4.1% to approximately RMB147.9 million (the Last Year: approximately RMB154.2 million).

In 2022, the overall market was under pressure from the economic downturn in the face of repeated impacts of the COVID-19 epidemic and the complex international market competition environment. Benefiting from the country's all-out efforts to promote the construction of Network Power and Digital China, new information infrastructure construction has made a new progress. Traditional industries are accelerating their digital transformation. More and more domestic enterprises are deeply integrating building technology with data transmission network cabling, and network structured cabling system products are being widely used in construction fields such as data centers, IoT networks, smart cities and intelligent buildings. The demand for the Group's structured cabling system products has maintained strong.

Putian Cable Group Co., Ltd* (普天線纜集團有限公司) ("**Putian Cable**"), a wholly-owned subsidiary of the Company, won the annual centralized procurement of power cables and digital communication cables of China Telecom and China Mobile again with a large share in 2022, maintaining a stable cooperation with the three major telecommunication operators in China. In addition, Putian Cable has also made breakthroughs in rail transportation projects. Communication optical cables, data cables and intelligent control cables have won the bids of many rail transit construction projects in Shenzhen, Chongqing, Chengdu and Dalian. Meanwhile, based on the smooth cooperation with China Railway Group, Power China, China Railway Construction, Sinopec and China Broadcasting Network, the Group is actively expanding its business cooperation with China Communications Construction, CNOOC and other state-owned groups to further strengthen the Group's customer base. Step by step, the Group is realizing a diversified industrial layout in the application field of information products in China.

The first phase of the Group's optical fiber plant construction project was officially put into production in February 2022, which aims to realize self-produced and self-used optical fiber, optimize the Group's production cost of optical cable, and enhance the production efficiency and product competitiveness of the enterprise in the optical fiber and cable industry chain. During the year, the communication cables industry gradually recovered and the demand for optical fiber and cable increased significantly. The Company's optical fiber production line has continued to expand its production capacity and achieved near full capacity since it started production.

In the communication copper cables business, the market demand for digital communication cables products is strong, with the proportion of Category 6, Ultra Category 6, and above data cable businesses gradually increasing. The market demand for customized products such as mask weaving, low smoke zero halogen, and corrosion protection has increased, and the 10G and 40G 10G data transmission index features have become the mainstream of sales. The Group continues to deepen cooperation with customers in smart cities, data centers, industrial Ethernet, and other fields, increase the expansion of new customers, maintain the stable growth of industrial links, high-speed interconnection cables, and connection components products, and make good progress in comprehensive wiring system link product solutions. It provides product and technical support for the "Mass Security Control Project (雪亮工程)" of public security systems in Shenzhen, Changzhou, Kunming, Yulin, Nanchang, and other parts of the country, and has been widely praised.

Overall, adhering to the core strategic positioning of "stability first, progress in stability", the Group insists on investment in research and development, continuously enhance the competitiveness of key technologies and products, and controls operational risks to achieve steady business growth.

In terms of research and development, Putian Cable has obtained four optical fiber and cable invention patents this year, including "New type of ultra-low loss G654E optical fiber and its production method (《新型超低損耗G654E光纖及其製作方法》)", "Ultra-low loss G.654E optical fiber and its production method (《超低損耗G.654E光纖及其製作方法》)", "Low loss G.652D optical fiber and its production method (《低損耗 G.652D 光纖及其製作方法》)", and "Anti-collision type material storage traction device for cable processing (《線纜加工用防撞型儲料牽引裝置》)", with remarkable achievements. In addition, Putian Cable participated in the preparation of seven national standards for cabling applications, which were officially published this year. From building construction, data centers, industrial Internet, to all-optical networks in smart parks, it sets technical standards and implementation specifications for the current construction and application of various Chinese communication cabling fields, purifying the market environment, and promoting healthy and orderly development. It will enable Putian Cable's scale production effectiveness to be better released, and improve the market operation resilience in terms of soft power, and also has a positive promotion for the original business, ensuring the stability of market competitiveness.

With the gradual completion of industrial optimization and upgrading, Putian Cable is also expanding its business boundaries and actively seeking cooperation with leading companies in different industries to join the supply system in the industrial chain.

OUTLOOK

The 20th National Congress of the CPC proposed to "accelerate the development of the digital economy and promote the deep integration of the digital economy and the real economy". Information communication is the backbone of promoting the research and development of the digital economy, to continue to release new momentum, play a fundamental and pioneering role, and fully solidify the digital economy bearing base. At the critical moment of the 14th Five-Year Plan, on 19 January 2023, China's Ministry of Industry and Information Technology published the "Communications Industry Statistical Bulletin 2022", which clearly shows that China's communications industry as a whole is improving, and the construction of communications network infrastructure is being accelerated. A series of national policies such as "Made in China 2025", "Guiding Opinions on Actively Promoting "Internet+" Action" and "14th Five-Year Plan" have been promoted and implemented thoroughly, which will accelerate the penetration of new communication infrastructure into various areas of economic and social life, and the trend of demand for construction of large data transmission, high-frequency and high-speed network design is more obvious. On February 27, the Central Committee of the CPC and the State Council issued the "Overall Layout Plan for the Construction of Digital China", which clearly points out that building digital China is an important engine for promoting Chinese modernization in the digital era. The plan aims to open up the main artery of digital infrastructure, accelerate the collaborative construction of 5G networks and gigabit optical networks, further promote the large-scale deployment and application of IPv6, and drive the comprehensive development of the mobile Internet of Things. It provides a guidance for the rational hierarchical layout of general data centers, supercomputing centers, intelligent computing centers, and edge data centers, etc., improving the overall level of application infrastructure, to enhance the digitalization and intelligent transformation of traditional infrastructure.

As the policies related to digital China are gradually implemented, the government shows its determination and efforts to vigorously accelerate the construction of digital China and drive the development of digital economy from the top planning to institutional settings. As an important component of the domestic digital economy, the construction of basic communications and industrial digital transformation tend to develop with optimized structure and enhanced momentum. A stream of achievements are made in convergence applications of 5G, gigabit optical fiber network, IoT, data center and other areas.

China has built the largest optical fiber and mobile broadband network in the world. By the end of 2022, the total length of China's optical cables reached 59.58 million kilometers, a net increase of 4.77 million kilometers over the end of the last year, and the network capacity was continuously enhanced. The fixed network gradually made a leap from 100 megabit to gigabit. By the end of 2022, the number of 10G PON ports with gigabit service capacity had reached 15.23 million, nearly doubling from the end of last year, and 110 cities nationwide had fulfilled the standard for gigabit construction. The mobile network maintained the global leadership in 5G construction. By the end of 2022, China had built and opened a total of 2.312 million 5G base stations, accounting for more than 60% of the total number of base stations in the world. While continuing to expand the coverage in urban areas at the prefecture level, it is gradually extending to towns and rural areas as needed.

In 2023, the digital economy will become the "stabilizer" and "accelerator" of economic recovery and high-quality development. The era of digital transformation has arrived. This will lead to increased demand for 5G "small base stations" and bring high-speed development opportunities for network applications of structured cabling system. With the establishment of communication network ecology, the development of industrial Internet and Internet of Things will also enter the fast lane. The gigabit optical fiber networks covering campuses, airports, hospitals and parks will connect to the internal networks of homes and buildings, drive the technological innovation and industrial upgrading of the intelligent industry in the parks, and facilitate the rapid growth of digital home and digital city business.

The Group will keep pace with the changes of the times and continue to promote the optimization of industrial structure by leveraging its advantages in technology research and development, core processes, industrial cooperation and production management. It will also strengthen industrial chain synergy through industrial cooperation, technological innovation, production capacity enhancement, resource integration and management optimization. The Group insists on the diversified development by actively laying out optical communication networks and digital communication networks. Focusing on the application and service of link products with structured cabling of optical fiber and cable, digital communication cable and communication networks, the Group accelerates international development while expanding its domestic business, fully explores the market opportunities in each business to achieve strategic extension and new growth in performance, continuously improving its core competitiveness and creating sustainable and stable value for the Group, shareholders and customers.

The Group plans to start the construction of the second phase of the "new non-dispersive single-mode optical fiber and optical cable production line" in mid-2023, aiming to achieve an annual production capacity of 10 million core kilometers of optical fibers, which will consolidate the foundation of the optical fiber industry segment, build the core advantage of large-scale cost of optical fiber and cable products and enhance market competitiveness. At the same time, we will focus on product development, technological innovation and application promotion of optical fiber and cables, data cables, specialized cables, and optoelectronic hybrid cables with high-frequency, high-speed and high-density. In addition, the Group will increase investment in optical fiber connection components and products represented by MPO optical fiber systems, and plan to extend the industrial chain to align with policies and market trends, further expand our competitive advantage, and boost our business development.

The Group strives to expand and deepen its global business layout. Through participation in communication exhibitions in India, Singapore, Dubai and other countries, we are facing the needs of our customers, complementing each other's strengths in manufacturing, production capacity, technology and products and seeking multi-dimensional opportunities for cooperation. At the same time, we are improving customer understanding and connectivity, responding to the individual needs of overseas customers to improve the support rate of key customer relationship and business completion rate.

In addition, the Group will further enhance operation efficiency and move from effectiveness to efficiency; provide more attractions and motivations to core talents; improve the compliance system, strengthen internal control and prevent corporate risks; and precisely allocate resources to support the long-term development of the Company.

The Group will leverage its extensive customer resources, R&D technology advantages and management base to optimize its product structure and realize the horizontal and vertical structural development of the industrial chain, guided by market demand and industry trends. We will make new contributions to the high-quality development of the economy and society.

Wang Qiuping

Chairlady and CEO

31 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue of the Group is mainly derived from sales of optical fibers and optical fiber cables, communication copper cables and structured cabling system products, which represent three reportable segments of the Group. Total revenue of the Group increased by approximately 3.5% from approximately RMB624.5 million for the Last Year to approximately RMB646.3 million for the Year. Among which, revenue derived from sale of optical fibers and optical fiber cables increased by approximately 71.9% from approximately RMB117.2 million for the Last Year to approximately RMB201.5 million for the Year; revenue derived from sale of communication copper cables decreased by approximately 15.9% from approximately RMB353.1 million for the Last Year to approximately RMB296.8 million for the Year; revenue derived from sale of structured cabling system products decreased by approximately 4.1% from approximately RMB154.2 million for the Last Year to approximately RMB147.9 million for the Year.

Gross profit and margin

Gross profit increased by approximately 1.8% from approximately RMB144.4 million for the Last Year to approximately RMB147.0 million for the Year. The Group's gross profit margin decreased from approximately 23.1% for the Last Year to approximately 22.8% for the Year. The decreased in gross profit margin was primarily due to the first phase of the Group's optical fiber production line commenced into operation during the Year, which absorbed a large construction costs arising on common areas and facilities and that impaired its profitability. The management is in an opinion that the performance could be improved when the second phase of the optical production line complete and put into production to share the fixed construction costs.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 3.0% from approximately RMB44.6 million for the Last Year to approximately RMB46.0 million for the Year, primarily due to the increase of approximately RMB4.0 million in salaries expenses for the selling and marketing staff and RMB3.4 million in the entertainment expenses and a decrease of approximately RMB4.8 million in transportation expenses. Selling expenses as a percentage of the Group's revenue remained stable, which was approximately 7.1% for the Year as compared to the one of approximately 7.1% for the Last Year.

Administrative expenses

Administrative expenses amounted to approximately RMB48.7 million for the Year, which increased by approximately 7.5% as compared to approximately RMB45.3 million for the Last Year due to the increase of approximately RMB2.7 million of depreciation arising from the office building's improvement work incurred in late 2021 and during the Year.

Finance costs

Finance costs increased by approximately 660% from approximately RMB2.5 million for the Last Year to approximately RMB19.0 million for the Year. The increase was due to that the Group has financed more bank and other borrowings which increased by approximately 30.5% from RMB259.5 million as at 31 December 2021 to RMB338.7 million as at 31 December 2022. Also, the first phase of the Group's "new-dispersive single-mode optical fiber and optical cable production line" construction project was officially completed by the end of the Last Year and thus there was no finance cost capitalised for the Year.

Income tax expense

Income tax expense decreased by approximately 16.4% from approximately RMB12.2 million for the Last Year to approximately RMB10.2 million for the Year, primarily due to the decreased in profit before income tax expense. The effective tax rate was approximately 21.7% for the Last Year and approximately 29.2% for the Year.

Profit for the Year

Profit for the Year decreased by approximately 43.9% from approximately RMB44.0 million for the Last Year to approximately RMB24.7 million for the Year.

Cash position

As at 31 December 2022, the Group had an aggregate of restricted cash, cash and cash equivalents of approximately RMB107.1 million (2021: approximately RMB91.3 million), representing an increase of approximately 17.3% as compared to that as at 31 December 2021. As at 31 December 2022, the Group had restricted cash of approximately RMB37.7 million (2021: approximately RMB25.8 million) that was pledged to banks for various banking facilities.

Borrowings and charges on the Group's assets

As at 31 December 2022, the Group had bank and other borrowings of approximately RMB338.7 million (2021: approximately RMB259.5 million) and all the balances (2021: approximately RMB250.5 million) were secured by legal charge over the properties of the Group and the controlling shareholders of the Company and their associates. Bank and other borrowings of approximately RMB234.3 million will be repayable within one year.

Pledge of assets

As at 31 December 2022, the carrying amounts of the Group's pledged assets were approximately RMB308.6 million (2021: approximately RMB264.1 million)

Save as disclosed in this announcement, the Group did not have any charges of assets as at 31 December 2022 (2021: Nil).

Significant investments

The Group did not hold any significant investments during the Year (2021: Nil).

Material acquisitions or disposals

During the Year, the Group did not conduct any material acquisition or disposal of subsidiaries, associates and joint ventures (2021: Nil).

Gearing ratio

As at 31 December 2022, the gearing ratio of the Group, calculated by having the total liabilities divided by the total equity, was approximately 1.07 (2021: approximately 0.86).

Total debt to total asset ratio

As at 31 December 2022, the total debt to total asset ratio of the Group, calculated by having the total liabilities divided by the total assets, was approximately 0.52 (2021: approximately 0.46).

Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank and other borrowings. The Group does not have an interest rate hedging policy. However, the Directors will monitor interest rate exposure from time to time and will consider hedging significant interest rate exposure should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates quoted by the People's Bank of China arising from the Group's bank and other borrowings.

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable expose the Group to cash flow interest rate risk and fair value interest rate risk. Certain of the bank and other borrowings of the Group as at 31 December 2022 and 2021 bore interest at floating rates. The interest rate and repayment terms of bank and other borrowings at the end of each reporting period are disclosed in note 26 to the Consolidated Financial Statements.

The Group's exposures to interest rate risk are detailed in note 38(a) to the Consolidated Financial Statements.

Contingent liabilities

As at 31 December 2022, we had no contingent liabilities.

Credit risk

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

In order to minimise the credit risk, the Directors have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. In addition, the Directors review the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the credit risk of the Group is significantly reduced.

The Directors consider that the credit risk on liquid funds is low as counterparties are banks with good reputation.

The credit risk of the Group is concentrated on trade and bills receivables from the Group's two largest customers at 31 December 2022 and 2021 amounted to approximately RMB147.3 million and approximately RMB112.7 million respectively, and accounted for approximately 38.1% and 40.1% of the Group's gross trade and bills receivables. In order to minimise the credit risk, the Directors continuously monitor the level of exposure by frequent review of the financial condition and credit quality of its customers to ensure that prompt actions will be taken to lower exposure.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

The Group measures expected credit losses for trade and bills receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. In measuring the expected credit losses, the trade and bills receivables have been assessed on a collective basis and debtors ageing is applied to assess expected credit losses for its customers because these customers consist of a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms. They have been grouped based on the days past due. The estimated ECL loss rates are estimated based on the Group's estimates of the market borrowing rates for each of the groupings, less risk-free rate, which reflect the credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group's exposures to credit risk are detailed in note 38(b) to the Consolidated Financial Statements.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, which have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities.

The Group's remaining contractual maturity for its non-derivative financial liabilities is detailed in note 38(c) to the Consolidated Financial Statements.

Capital Commitments

As at 31 December 2022, the Group had capital commitments of capital expenditure contracted but not provided in respect of acquisition of property, plant and equipment and intangible assets amounting to approximately RMB39.9 million (2021: approximately RMB8.4 million). The capital commitments incurred at the end of the Year were mainly contracted for the purchase of equipment for an optical fiber production line.

Future plans for material investments

The Group will continue to invest in its development projects and acquire suitable plant and machinery by funding from internal resources, external equity financing and/or borrowings, if it thinks fit.

Employees and remuneration policies

As at 31 December 2022, the Group had 585 employees (2021: 469 employees). For the Year, the Group incurred staff costs of approximately RMB60.6 million (2021: approximately RMB48.3 million). As required by applicable PRC laws and regulations, the Group participates in various employee benefit plans, including pension insurance and medical insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to reducing its impacts to the environment from its factories and offices through mitigating the environmental pollutions and utilising resource efficiently. The Group strives to complying with related environmental laws and legislations, and continual improvement on its performance. The Environmental, Social and Governance Report was set out on page 36 of this annual report in compliance with Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

KEY RELATIONSHIPS WITH ITS EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group strives to maintaining a good relationship with its employees, customers and suppliers. For more details on how it creates a motivated workplace for its employees, produce quality products to satisfy its customers' expectations and, establish long-term relationships with its suppliers, please refer to the Environmental, Social and Governance Report was set out on page 36 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

Save as disclosed in this annual report, during the Year, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE

EXECUTIVE DIRECTORS

Ms. Wang Qiuping (王秋萍), aged 59, is an executive Director, the chairlady of the Board and chief executive officer of the Company responsible for the overall business management and strategic planning of the Group. Ms. Wang is also the founder of the Group and one of the controlling shareholders. Before the establishment of the Group, Ms. Wang worked in the Jiangxi Province Communication and Electric Cable Factory* (江西省通信電纜廠) from 1984 to 1991, with her last position responsible for advertising. In November 1999, Ms. Wang set up Jiangxi Putian Building Intelligence Co., Ltd. ("**Jiangxi Building**"), which has been principally engaged in the sales of structured cabling system products since its incorporation. Save for Jiangxi Changtian Optical Communication Co., Ltd ("**Jiangxi Optical**"), Ms. Wang is a director of each of the subsidiaries of the Group. Ms. Wang is also a supervisor of Jiangxi Optical. Ms. Wang has been the deputy to the People's Congress of Nanchang City (南昌市人大代表) since October 2016. Ms. Wang obtained a diploma in basic theory of Marxism* (馬列主義基礎理論) from Jiangxi Normal University (江西師範大學) in the PRC in December 1986.

Ms. Wang was awarded "May 1" Jinguo Biaobing (五一巾幗標兵) of Jiangxi Province by Jiangxi Federation of Trade Unions in March 2018 and was recognised as 2018 Outstanding Entrepreneur of Nanchang High-tech Industrial Development Zone by Nanchang High-tech Industrial Development Zone Government in March 2019.

Ms. Wang is the spouse of Mr. Zhao, the mother of Ms. Zhao Moge and the sister-in-law of Mr. Ye Fanxiu.

Mr. Zhao Xiaobao (趙小寶) (alias Zhao Baohua (趙保華)), aged 58, is an executive Director responsible for the overall sales of the Group. He joined the Group in June 2001. Mr. Zhao is a director of each of Putian Cable Group Co., Ltd and Jiangxi Optical and a supervisor of Jiangxi Building. Mr. Zhao has more than 21 years of experience in the production and sales in the telecommunications industry. Before joining the Group, he had worked as an officer at the regulatory division of the Administration for Industry and Commerce of Nanchang City from 1984 to 1999, responsible for the execution of relevant laws, rules and regulations relating to commodity trading markets in Nanchang.

Mr. Zhao obtained a diploma in business administration management (工商行政管理) from Wuhan University (武漢大學) in the PRC in July 1992.

Mr. Zhao is the spouse of Ms. Wang, the father of Ms. Zhao Moge and the brother-in-law of Mr. Ye Fanxiu.

Ms. Zhao Moge (趙默格), aged 34, is an executive Director responsible for the overall operation and finance of the Group.

Ms. Zhao joined the Group in July 2011 and had held various positions. She first started working for the Group as an administrative executive responsible for administrative matters. She became an accounting assistant in May 2012 and was promoted to accounting manager with responsibility for managing and overseeing the daily operation of accounting department in July 2014. In April 2015, she became the general manager of Putian Cable (Shanghai) Building Intelligence Co., Ltd ("**Putian Cable (Shanghai)**") and was responsible for the marketing and sales in the PRC market. Ms. Zhao is a director of Putian Cable and a supervisor of Putian Cable (Shanghai). Ms. Zhao obtained a bachelor of engineering from Nanchang University (南昌大學) in the PRC in June 2011.

Ms. Zhao is the daughter of Ms. Wang and Mr. Zhao.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Cheng Shing Yan (鄭承欣) ("**Ms. Cheng**"), aged 48, was appointed as an independent non-executive Director on 21 October 2017. She is the chairlady of the audit committee of the Company (the "**Audit Committee**") and a member of each of the nomination committee (the "**Nomination Committee**") and the remuneration committee of the Company (the "**Remuneration Committee**").

Ms. Cheng has about 25 years of experience in the fields of accounting and auditing. Ms. Cheng joined the group of Sanroc International Holdings Limited ("**Sanroc**") (now known as Zhaobangji Properties Holdings Limited), which is listed on the Main Board of the Stock Exchange (stock code: 1660), as the chief financial officer of Sanroc from April 2016 to April 2018 and as the chief financial officer of certain subsidiaries of Sanroc since April 2018. Ms. Cheng had also been the company secretary and an executive director of Sanroc International Holdings Limited from April 2016 to April 2018 and from April 2017 to April 2018, respectively. Ms. Cheng has been an independent non-executive director of Kwong Luen Engineering Holdings Limited (stoke code: 1413) since March 2021 and China Shenghai Food Holdings Company Limited (stock code: 1676) from July 2017 to 19 October 2019.

Ms. Cheng obtained a degree of Master of Arts in International Accounting at the City University of Hong Kong in November 2003, and was admitted as a member, and a fellow member, of the Association of Chartered Certified Accountants (the "**ACCA**") in December 2000 and December 2005, respectively. She was also admitted as an associate of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants (the "**HKICPA**")) since July 2003. Ms. Cheng has also been admitted as an associate of both The Hong Kong Institute of Chartered Secretaries (now known as The Hong Kong Chartered Governance Institute) (the "**HKICS**") and The Institute of Chartered Secretaries and Administrators (now known as the Chartered Governance Institute) (the "**ICSA**") in June 2017.

Mr. Liu Guodong (劉國棟), aged 46, was appointed as an independent non-executive Director on 21 October 2017. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

Mr. Liu has more than 18 years of experience in the optical research field. He has been a professor of Jiangxi Science & Technology Normal University (江西科技師範大學) (formerly known as Jiangxi Science & Technology Normal College* (江西科技師範學院) since December 2004. He has served as the executive director (常務理事) and secretary-general of Optical Society of Jiangxi Province* (江西省光學學會) from 2004 until now. He served as a member of Biomedical Photonics Committee of China Optical Society* (中國光學學會生物醫學光子學專業委員會) from August 2009 to August 2013. He served as a member of Optoelectronic Technology Committee of China Optical Society* (中國光學學會光電技術專業委員會) from September 2007 to September 2011. From October 2006 to October 2010, Mr. Liu served as a member of editorial board for "Applied Optics". Mr. Liu served as the vice chairman of the National Optical Youth Academic Forum* (全國光學青年學術論壇) from December 2009 to December 2013.

Mr. Liu obtained a doctorate degree in optical science and engineering (光學工程) from Tsinghua University (清華大學) in the PRC in January 2004.

Mr. Xie Haidong (謝海東), aged 51, was appointed as an independent non-executive Director on 21 October 2017. He is the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee. Mr. Xie is currently an associate professor and a tutor for master students (碩士生導師) of Finance Department of School of Economics and Management of Nanchang University* (南昌大學經濟管理學院). He also serves as a director of the eighth board of Council of Finance of Jiangxi Province* (江西省金融學會). From January 2016 to October 2018, Mr. Xie served as the Head of Finance Department of School of Economics and Management of Nanchang University. From November 2009 to November 2012, Mr. Xie served as a special researcher of Development Research Center of the People's Government of Jiangxi Province* (江西省政府發展研究中心). From September 2010 to December 2016, Mr. Xie served as deputy director of Industrial Economics Research Institute of Central China Economic and Social Development Research Center of Nanchang University* (南昌大學中國中部經濟社會發展研究中心產業經濟研究所). From 2013 to 2015, Mr. Xie served as a consulting expert in relation to issuance of corporate bond for Reform and Development Commission of Jiangxi Province* (江西省發展與改革委員會). Prior to the aforesaid, he worked for enterprise investigation team of Statistics Bureau of Jiangxi Province* (江西省統計局) from January 1997 to December 2004. He was a business director of Jiangxi Branch of business department of Kunwu Jiuding Investment Management Co., Ltd.* (昆吾九鼎投資管理有限公司), a wholly-owned subsidiary of Jiangxi Zhong Jiang Real Estate Co., Ltd. (江西中江地產股份有限公司) (currently known as Kunwu Jiuding Investment Holdings Co., Ltd., 昆吾九鼎投資控股股份有限公司), whose shares are listed on Shanghai Stock Exchange (stock code: 600053) and principal business includes investment management and investment consulting, from February 2011 to October 2011. He was a guest faculty (訪問學者) in the department of finance at University of Notre Dame in the United States from August 2014 to August 2015. Since from August 2020, Mr. Xie has been appointed as the independent director of Jiangxi Salt Industry Group Co Ltd whose shares are listed on Shanghai Stock Exchange (stock code: 601065).

Mr. Xie graduated from Nanchang University (南昌大學) in the PRC with a bachelor of economics degree in July 1994. He further earned a master of economics degree from Jiangxi University of Finance and Economics (江西財經大學) in the PRC in June 2002 and a doctorate degree in political economics from Shanghai University of Finance and Economics (上海財經大學) in the PRC in January 2007.

SENIOR MANAGEMENT

Mr. Zeng Haowen (曾浩文), aged 52, is the production director of the Group responsible for overseeing the overall production of the Group. Mr. Zeng has over 31 years of working experience in the field of cable and wire. Mr. Zeng joined the Group in February 2006 and first served as a manager of production department before he was promoted to the current position in March 2011. Prior to joining the Group, Mr. Zeng worked for Jiangxi Fan Ya Electric Wire and Cable Co., Ltd* (江西泛亞電線電纜有限公司) from August 1991 to January 2006, and he last served as the person in charge of the maintenance section of equipment department. Mr. Zeng obtained a diploma in mold design and manufacturing (模具設計與製造) from Jiangxi Science & Technology Normal University (江西科技師範大學) in the PRC in January 2013. He obtained the qualification as safety management associate* (安全管理人員) from Administration of Work Safety of Nanchang City (南昌市安全生產監督管理局) in August 2015. He also obtained the qualifications as electric welder (電焊工) and bench worker (鉗工) from Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國勞動和社會保障部) in April 2001 and May 2004 respectively.

Mr. Huang Guangnian (黃光年), aged 47, is the research and development director of the Group responsible for the research and development and quality management of the Group. He joined the Group in February 2007. Mr. Huang has over 21 years of working experience in the field of research and development. Prior to joining the Group, Mr. Huang worked in the technology department of Jiangxi Province Nanchang Telecommunications and Equipments Factory* (江西省南昌電信器材廠) from 2001 to 2006, and he was responsible for product development. He was awarded Second Prize of Outstanding New Product of Jiangxi Province for Year of 2003* (2003年江西省優秀新產品二等獎) by Economic and Trade Commission of Jiangxi Province* (江西省經濟貿易委員會) in 2004. Mr. Huang obtained a diploma in applied computer (計算機應用) from Jiangxi Radio & TV University (江西廣播電視大學) in the PRC in June 1997. He obtained the preliminary professional qualification as assistant engineer from Career Title Reform Leading Group Office of De An County* (德安縣職稱改革領導小組辦公室) in November 2000 and was appointed as assistant engineer of Jiangxi Province De An Cement Factory* (江西省德安水泥廠) from February 2001 to February 2004.

Ms. Zhou Zhi (周治), aged 46, is a chief business officer of business center of the Group responsible for overall sales strategies and planning of the Group. Ms. Zhou joined the Group in September 2004 and first served as a manager of sales department and was promoted to the current position in July 2012. Prior to joining the Group, Ms. Zhou worked as a sales officer at the grid information group of Taihao Technology Company Limited* (泰豪科技股份有限公司) from 1999 to August 2004, responsible for sales. Ms. Zhou obtained a diploma in engineering and civil communication* (工程與民用通訊) from Jiangxi Radio & TV University (江西廣播電視大學) in the PRC in June 1999.

Mr. Ye Fanxiu (葉反修), aged 61, is a procurement and logistics director of the Group responsible for overall procurement and logistics operation of the Group. Mr. Ye has over 33 years of experience in electronic industry. He joined the Group in September 2008, and he first served as procurement and logistics manager and was promoted to the current position in September 2013. Prior to joining the Group, he worked for Jiangxi Electronic Equipment Factory* (江西電子儀器廠) from October 1981 to July 2000, and he last served as chief controller of production division responsible for overseeing the production process of electronic equipment. Mr. Ye obtained a diploma in journalism from Jiangxi University (江西大學) in the PRC in July 1990. Mr. Ye is the brother-in-law of Ms. Wang and Mr. Zhao.

Ms. Lai Yeung Fun (黎樣歡), aged 44, is the chief financial officer and the company secretary of the Company. She is responsible for financial planning and reporting, internal control, and overall corporate secretarial matters of the Group. Ms. Lai has about 20 years of experience in financial management, accounting and auditing work. Ms. Lai obtained a degree of master of science in corporate governance & compliance from the Hong Kong Baptist University in November 2019. Ms. Lai graduated from the City University of Hong Kong with a bachelor degree in accountancy in November 2003. She was admitted as a member of Association of Chartered Certified Accountants in June 2009. She currently is a member of Hong Kong Institute of Certified Public Accountants. Ms. Lai has also been admitted as an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in March 2020.

* *For identification purpose only*

REPORT OF THE DIRECTORS

The Board presents to the shareholders of the Company this annual report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are production and sale of optical fiber cables, communication copper cables and structured cabling system products in the PRC. The principal activities of the subsidiaries are set out in note 33 to the Consolidated Financial Statements. There was no significant change in the Group's principal activities during the Year.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 60 of this annual report.

The Board did not recommend the payment of a final dividend for the Year.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company had reserves amounted to approximately RMB79.8 million available for distribution as calculated based on the Company's share premium, other reserves and accumulated losses under applicable provisions of the Companies Law in the Cayman Islands. Details of the distributable reserves of the Company are set out in note 32 to the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year is set out in note 16 to the Consolidated Financial Statements.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 29 to the Consolidated Financial Statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 5 of this annual report. This summary does not form part of the audited financial statements.

BUSINESS REVIEW

The review of the business of the Group during the Year and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis", and the description of principal risks and uncertainties facing the Group and key financial performance indicators are set out in the section headed, "Management Discussion and Analysis". The financial risk management objectives and policies of the Group are set out in note 38 to the Consolidated Financial Statements. In addition, discussions on the Group's relationships with key stakeholders, environmental policies and performance and compliance with relevant laws and regulations which have a significant impact on the Group are as follows:

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group's success depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

The Group is committed to establishing a close and caring relationship with its employees. The Group provides a fair and safe workplace, promotes diversity to the staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

Customers and suppliers

During the Year, the Group's five largest suppliers contributed approximately 61.1% of the Group's total purchase. The largest supplier has attributed to approximately 23.2% of the Group's total purchase. The Group sold products directly to customers which included the major telecommunication network operators in the PRC. The largest customer has accounted for approximately 14.6% of the total sales. The Group's sales generated from top five customers has attributed to approximately 45.3% of the Group's total sales. Save as disclosed above, none of the Directors, their respective close associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in any of the Group's five largest customers and suppliers.

The Group is able to build up close working relationship with its business partners and bring together the customers and suppliers to develop foundation technology. The Directors have frequent interactions with the customers regarding their feedbacks on the quality of our products which would then be reflected to the suppliers. Through this solid communication channel together with our experienced management team, the Directors believe that we are able to better understand our customers' needs as well as the market trend in order to make appropriate modifications or improvements to our products.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We believe that our business also depends on our ability to meet our customers' requirements in respect of safety, quality and environmental aspects. To fulfil our customers' requirements on safety, quality and environmental aspects, we have established and implemented various quality control measures in our operation process. Through the systematic and effective control of our operations, compliance with safety, quality and environmental requirements can be further assured.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Directors confirmed that during the Year and up to the date of this annual report, the Group had obtained all the registrations and certifications required for its business and operations and had complied with the applicable laws and regulations in the PRC.

DIRECTORS

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

Executive Directors

Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*

Mr. Zhao Xiaobao (alias Zhao Baohua)

Ms. Zhao Moge

Independent Non-Executive Directors

Ms. Cheng Shing Yan

Mr. Liu Guodong

Mr. Xie Haidong

Information regarding directors' emoluments are set out in note 14 to the Consolidated Financial Statements.

The Directors' biographical details are set out in the section headed "Directors and Senior Management's profile" in this annual report.

In accordance with article 83(3) of the Articles of Association of the Company (the "**Articles**"), any Director appointed by the Board either to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Pursuant to article 84(1) of the Articles, at every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Accordingly, Ms. Wang Qiuping and Mr. Liu Guodong will retire from office as Directors at the forthcoming annual general meeting of the Company. All of them being eligible will offer themselves for re-election.

The Company has received from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company which is initially for a fixed term of 3 years, commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term, and shall continue thereafter until terminated by not less than one month's written notice to the other party.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company which is initially for a fixed term of 2 years, commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term. The appointment is subject to termination under certain circumstances as stipulated in the said letter of appointment, and the provisions of the Articles with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

Each of the executive Directors and independent non-executive Directors is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Articles.

Apart from the foregoing, none of the Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the Year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the Year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) was in force for an indemnity against a liability incurred by Directors to a third party during the Year and up to the date of this annual report.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" below, no equity-linked agreements were entered into by the Group, or existed during the Year.

DIVIDEND POLICY

The proposal of payment and the amount of dividends will be made at the discretion of the Board and will depend on the Group's general business condition and strategies, cash flows, financial results and capital requirements, the interests of the shareholders, taxation conditions, statutory and regulatory restrictions and other factors that the Board deems relevant.

In addition, as the Company is a holding company registered in the Cayman Islands and our operations are conducted through our subsidiaries, some of which are incorporated in the PRC, the availability of funds to pay distributions to shareholders and to service the Group's debts depends on dividends received from these subsidiaries.

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

As at 31 December 2022, the interests and short positions of the Directors or chief executive of the Company in the shares of the Company (the "**Shares**"), or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which shall have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest or short positions which they are taken or deemed to have under such provisions of the SFO) or shall be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or shall be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long Positions in the Shares

Name of director	Capacity/Nature of interest	Number of shares held (Note 1)	Approximate percentage of shareholding
Ms. Wang Qiuping	Interest in a controlled corporation (Note 2)	408,375,000	37.13%
Mr. Zhao Xiaobao	Interest in a controlled corporation (Note 3)	358,875,000	32.63%

Notes:

1. All interests stated are long positions.
2. These Shares are held by Arcenciel Capital Co., Ltd ("**Arcenciel Capital**"), which is wholly owned by Ms. Wang. By virtue of the SFO, Ms. Wang is deemed to be interested in the Shares held by Arcenciel Capital.
3. These Shares are held by Point Stone Capital Co., Ltd ("**Point Stone Capital**"), which is wholly owned by Mr. Zhao. By virtue of the SFO, Mr. Zhao is deemed to be interested in the Shares held by Point Stone Capital.

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executive of the Company had registered an interest or short position in the Shares or underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under provision of the SFO) or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, so far as is known to the Directors or chief executive of the Company, the following persons (other than Directors or chief executive of the Company), who had interests or short positions in the Shares, the underlying Shares and debentures of the Company and its associated corporation within the meaning of Part XV of the SFO which were required to be disclosed pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein, were as follows:

Name of shareholder	Capacity/Nature of interest	Number of shares held (Note 1)	Approximate percentage of shareholding
Arcenciel Capital Co., Ltd.	Beneficial owner (Note 2)	408,375,000	37.13%
Point Stone Capital Co., Ltd.	Beneficial owner (Note 3)	358,875,000	32.63%

Notes:

1. All interests stated are long positions.
2. These Shares are held by Arcenciel Capital, which is wholly owned by Ms. Wang Qiuping. By virtue of the SFO, Ms. Wang is deemed to be interested in the Shares held by Arcenciel Capital.
3. These Shares are held by Point Stone Capital, which is wholly owned by Mr. Zhao Xiaobao. By virtue of the SFO, Mr. Zhao is deemed to be interested in the Shares held by Point Stone Capital.

Save as disclosed above, as at 31 December 2022, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein.

SHARE OPTION SCHEME

Pursuant to the shareholder written resolutions passed on 21 October 2017, the Company adopted a share option scheme (the "**Share Option Scheme**"). The Share Option Scheme will remain in force for a period of 10 years commencing on 21 October 2017. As at 31 December 2022, the remaining life of the Share Option Scheme is approximately 5 years. No share options have been granted under the Share Option Scheme since its effective date and up to 31 December 2022 and hence there was no outstanding options as at 31 December 2022. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the Board may, at its discretion, grant options to subscribe for shares in the Company to eligible participants (the "**Eligible Participants**") who contribute to the long-term growth and profitability of the Company. Eligible Participants include (i) any employee (whether full-time or part-time including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries or any entity (the "**Invested Entity**") in which any member of the Group holds an equity interest; (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more Eligible Participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group shall not exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the Listing date (i.e. not exceeding 110,000,000 shares).

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

(a) Subject to paragraph (b) below, the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of the Group (including both exercised or outstanding options) to each Eligible Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of such limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules; and

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

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

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

No option was granted, exercised, cancelled or lapsed under the Share Option Scheme since from the date adopted this Share Option Scheme till the end of the Last Year and there was no outstanding share option as at 1 January 2022 and 31 December 2022.

No share-based payment expense was recognised for the Year in relation to share options granted by the Company.

As at the date of this annual report, the Company may grant up to 110,000,000 share option under the Share Option Scheme, which represented 10% of the Company's shares in issue as at the date of passing of the relevant resolution adopting the Share Option Scheme and 10% of the Company's shares in issue as at the date of this annual report.

CONNECTED TRANSACTIONS

The Group had not entered into any transactions constituted connected transactions (including continuing connected transactions) which is subject to the disclosure requirements under Chapter 14A of the Listing Rules during the Year.

RELATED PARTY TRANSACTIONS

The significant related party transactions entered into by the Group during the Year are set out in note 31 to the Consolidated Financial Statements. The related party transactions of the Group do not fall under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

COMPETING BUSINESS

The Company received confirmations from the controlling shareholders of the Company in March 2023 on their compliance of the non-competition undertaking under the deed of non-completion as disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus (the "**Deed of non-competition**") for the Year. The independent non-executive Directors have reviewed the confirmations and evaluated the effectiveness of the implementation of the Deed of non-competition and concluded that none of the controlling shareholders and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules and pursuant to the Deed of non-competition during the Year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group was set up by the Board on the basis of their merit, qualifications and competence. The emolument of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a Share Option Scheme as an incentive to eligible persons, details are set out in the section headed "Share Option Scheme" in this annual report and the section headed "Statutory and General Information – 15. Share option scheme" in the Prospectus.

REMUNERATION PAID TO MEMBERS OF SENIOR MANAGEMENT

Pursuant to code provision E.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are set out in the section headed "Directors and Senior Management's Profile" in this annual report for the Year by band is set out in note 15 to the Consolidated Financial Statements.

RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit schemes are set out in note 10 to the Consolidated Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

SUFFICIENCY OF 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 annual report, the Company has maintained sufficient public float throughout the Year as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's turnover and purchases attributable to major customers and suppliers during the years ended 31 December 2021 and 2022 are as follows:

	For the year ended	
	31 December 2022	31 December 2021
Percentage of turnover		
From the largest customer	**14.6%**	21.9%
From the five largest customers in aggregate	**45.3%**	46.5%
Percentage of purchase		
From the largest supplier	**23.2%**	11.8%
From the five largest suppliers in aggregate	**61.1%**	39.9%

At no time during the Year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) have an interest in any of the Group's five largest suppliers or customers.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed above, there was no other significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the Year.

AUDITOR

BDO Limited has resigned as the auditor of the Company with effect from 28 October 2022. Moore Stephens CPA Limited has been appointed as the auditor of the Company with effect from 28 October 2022 to fill the casual vacancy.

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

On behalf of the Board

Wang Qiuping
Chairlady

Hong Kong, 31 March 2023

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the Year.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance practices. Save for the deviation as disclosed herein below, the Company has complied with the applicable code provisions as set out in the CG Code during the Year. The key corporate governance principles and practices of the Company are outlined in this report.

Chairman of the Board and Chief Executive Officer

Provision C.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

Ms. Wang is the chairlady of the Board and the chief executive officer of the Company. This deviates from the practice under provision C.2.1 of the CG Code, where it provides that the two positions should be held by two different individuals. However, as Ms. Wang has considerable and extensive knowledge and experience in the industry and in enterprise operation and management in general, the Board believes that it is in the best interest of the Company and its shareholders as a whole to continue to have Ms. Wang as the chairlady of the Board so that the Board can benefit from her knowledge of the business and her capability in leading the Board in the long term development of the Group. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman should not be able to monopolise the voting of the Board. The Board considers that the balance of power between the Board and the senior management of the Company can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate action is taken should the need arise.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, overseeing the Group's strategic decisions and monitoring its business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the shareholders of the Company at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

BOARD COMPOSITION

During the Year and up to the date of this annual report, the composition of the Board is as follows:

Executive Directors:

Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*

Mr. Zhao Xiaobao (alias Zhao Baohua)

Ms. Zhao Moge

Independent Non-Executive Directors:

Ms. Cheng Shing Yan

Mr. Liu Guodong

Mr. Xie Haidong

To the best knowledge of the Directors, save and except Ms. Wang Qiuping and Mr. Zhao Xiaobao are spouse and Ms. Zhao Moge is the daughter of Ms. Wang Qiuping and Mr. Zhao Xiaobao, there was no other relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

The biographies of the Directors are set out under the section headed "Directors and Senior Management's Profile" of this annual report.

During the Year, the Company has been in compliance with the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company believes that the diversity of the Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider the Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. The Board diversity policy sets out the approach towards achieving diversity on the Board. Pursuant to the Board diversity policy, all Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. As each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as the identity and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Directors' Continuing Professional Development

Each Director was provided with the necessary training and information to ensure that he/she has proper understanding of the responsibilities under the Listing Rules and the applicable law, rules and regulations. The Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills. The Company will continue to arrange suitable training and regular seminars to provide the Directors with updates on the latest developments and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time.

Appointment and Re-election of Directors

Each of the executive Directors has signed a service contract with the Company for a term of three years commencing from their respective date of appointment and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term, subject to termination as provided in the service contract.

Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of two years commencing from the Listing Date and renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term.

The appointments of executive Directors, non-executive Director and independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the articles of association of the Company (the "**Articles**") and the applicable Listing Rules. The procedures and process of appointment, re-election and removal of Directors are set out in the Articles.

In accordance with the article 84(1) of the Articles, at every annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to article 83(3) of the Articles shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Board Meetings, General Meetings and Attendance of Directors

The Board is committed to holding regular board meetings at least four times a year at approximately quarterly intervals. The Group establishes an effective communication among all the Directors.

Since 1 January 2022 and up to the date of this annual report, the Company held seven Board meetings, three Audit Committee meetings, two Remuneration Committee meetings and two Nomination Committee meetings. The attendance record of each Director at the abovementioned Board meetings and committee meetings has been set out below.

	Attendance/Number of				
Name of Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**General Meeting**
Executive Directors					
Ms. Wang Qiuping *(Chairlady and Chief Executive Officer)*	7/7	N/A	N/A	N/A	1/1
Mr. Zhao Xiaobao (alias Zhao Baohua)	7/7	N/A	N/A	N/A	1/1
Ms. Zhao Moge	7/7	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Ms. Cheng Shing Yan	7/7	3/3	2/2	2/2	1/1
Mr. Liu Guodong	7/7	3/3	2/2	2/2	1/1
Mr. Xie Haidong	7/7	3/3	2/2	2/2	1/1

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made enquiries to all Directors regarding any non-compliance with the Model Code.

All the Directors confirmed that they have fully complied with the required standard set out in the Model Code during the Year.

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board is responsible for all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense. The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

BOARD COMMITTEE

The Board has established the audit committee, the remuneration committee and the nomination committee and delegated various responsibilities to these committees, which assist the Board in discharging its duties and overseeing particular aspects of the Group's activities.

Audit committee

The Company established an audit committee (the "**Audit Committee**") on 21 October 2017 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of the CG Code. The duties of the Audit Committee include, without limitation, (a) making recommendations to our Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) monitoring integrity of our financial statements, our annual report and accounts and our half-year report, and reviewing significant financial reporting judgments contained therein; and (c) reviewing our financial controls, internal control and risk management systems. The terms of reference of the Audit Committee are currently made available on the websites of the Stock Exchange and the Company.

The Audit Committee consists of three independent non-executive Directors, namely, Ms. Cheng Shing Yan, Mr. Liu Guodong and Mr. Xie Haidong. Ms. Cheng Shing Yan who possesses the appropriate professional qualifications as required under Rule 3.10(2) and 3.21 of the Listing Rules is the chairlady of the Audit Committee. The quorum of meetings of the Audit Committee shall be any two members.

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

Since 1 January 2022 and up to the date of this annual report, the Audit Committee had held three meetings, together with the management of the Company and external independent auditor, reviewed the Group's consolidated financial statements for the year ended 31 December 2022 and this annual report, and considered that they were prepared in compliance with the relevant accounting standards and that the Company has made appropriate disclosure thereof.

Remuneration committee

The Company established a remuneration committee (the “**Remuneration Committee**”) on 21 October 2017 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph E.1 of the CG Code. The duties of the Remuneration Committee, under the principle that no Director should be involved in deciding his own remuneration, include, without limitation, (a) making recommendations to our Board on our policy and structure for the remuneration of all of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to our Board on the remuneration packages of our executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their offices or appointments, and making recommendations to our Board of the remuneration of our independent non-executive Directors; and (c) reviewing and approving our management’s remuneration proposals with reference to our Board’s corporate goals and objectives. The terms of reference of the Remuneration Committee are currently made available on the websites of the Stock Exchange and the Company.

The Remuneration Committee consists of Mr. Liu Guodong, Ms. Cheng Shing Yan and Mr. Xie Haidong. Mr. Liu Guodong is the chairman of the Remuneration Committee. The quorum of meetings of Remuneration Committee shall be any two members.

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

Since 1 January 2022 and up to the date of this annual report, the Remuneration Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

Nomination committee

The Company established a nomination committee (the “**Nomination Committee**”) on 21 October 2017 with written terms of reference in compliance with Rule 3.27A of the Listing Rules and paragraph B.3 of the CG Code. The duties of the Nomination Committee include, without limitation, (a) reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our corporate strategy; (b) identifying individuals suitably qualified to become members of our Board and selecting or making recommendations to our Board on the selection of individuals nominated for directorships; (c) assessing the independence of our independent non-executive Directors; and (d) making recommendations to our Board on the appointment or re-appointment of our Directors and succession planning for our Directors, in particular the chairman and the chief executive. The terms of reference of the Nomination Committee are currently made available on the websites of the Stock Exchange and the Company.

The Nomination Committee consists of Mr. Xie Haidong, Ms. Cheng Shing Yan and Mr. Liu Guodong. Mr. Xie Haidong is the chairman of the Nomination Committee. The quorum of meetings of the Nomination Committee shall be any two members.

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

Since 1 January 2022 and up to the date of this annual report, the Nomination Committee held two meetings which had been supplied with the necessary information of the Group for members to consider, review and access significant issues arising from the work conducted.

BOARD DIVERSITY POLICY

The Board adopts a board diversity policy. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. Diversity of Board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional qualifications, industry and regional experience, skills, knowledge and length of service. All the Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that the appropriate accounting policies are selected and applied consistently. The reporting responsibilities of the Company's external auditor on the consolidated financial statements of the Group are set out in the independent auditor's report on pages 55 to 59 of this annual report. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

AUDITOR'S REMUNERATION

The remuneration for the audit services provided by the Auditor to the Group during the Year amounted to approximately RMB865,000.

RISK MANAGEMENT AND INTERNAL CONTROL

Responsibilities of the Board

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewing the effectiveness of such systems through the Audit Committee on annual basis. The Audit Committee assists the Board in fulfilling its oversight and corporate roles in the Group's financial, operational, compliance, risk management, internal controls, while senior management designs, implements and monitors the risk management and internal control systems, and provides reports to the Board and the Audit Committee on the effectiveness of these systems. However, systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve the Group's business.

Risk Management and Assessment

The Company has established formal risk assessment criteria for the Group. Senior management identifies risks that potentially impact the key processes of the operations on an annual basis. Risks are scored and ranked by their impact on the business and the likelihood of their occurrence. Senior management assesses the effectiveness of the existing controls and formulates risk mitigating activities. Results of the annual risk assessment are reported to the Audit Committee, including amongst other things, significant risks of the Group and the appropriate control activities to mitigate and/or transfer the identified risks objectives.

Internal Control

The Company has established defined levels of responsibilities and reporting procedures. Controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are identified and assessed.

The Company has internal audit function which is primarily responsible for developing various internal control manuals and procedures, conducting reviews on the key operational processes and the related internal controls to ensure compliance with the Group's risk management and internal control policies and procedures.

The Group has engaged a consulting firm to conduct an annual review of the effectiveness of the internal control system of the Group including making recommendations to enhance the overall internal control system for the year ended 31 December 2022. The internal control review report has been approved by the Audit Committee and the Board. Based on the internal control review report and its own assessment, the Board considered that the Company's internal control system is adequate and effective.

Review of Risk Management and Internal Control Systems

The Audit Committee assists the Board in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The Directors through the Audit Committee are kept informed of significant risks that may impact on the Group's performance. For the Year, the Board considered the risk management and internal control systems of the Group to be effective and adequate. The Audit Committee has reviewed and is satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, and financial reporting function.

Procedures and Controls over Handling and Dissemination of Inside Information

The Company is aware of its obligation under relevant sections of the Securities and Futures Ordinance (the "**SFO**") and the Listing Rules. An Inside Information Policy has been established to lay down practical guidelines on definition of inside information, compliance and reporting, disclosure and announcement of inside information. All members of the Board, senior management, head of departments, and staff who are likely to possess inside information are strictly bound by this policy. Staff who have access to inside information is required to keep the unpublished inside information confidential until relevant announcement is made. Failure to comply with such requirements may result in disciplinary actions.

COMPANY SECRETARY

The role of the company secretary of the Company is performed by Ms. Lai Yeung Fun. The company secretary is responsible for facilitating the Board's communications among Board members, the Shareholders and the management of the Company and ensuring the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

Ms. Lai Yeung Fun has confirmed that she took not less than 15 hours of relevant professional training during the Year in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable the Shareholders and investors to make the informed investment decisions. To promote effective communication, the Company adopts a shareholders communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at www.potel-group.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

The Company seriously takes care the Shareholders' interest to ensure that they are treated fairly and are able to exercise their Shareholders' rights effectively. Shareholders are entitled by the Articles and are also encouraged to participate in the Company's general meetings.

Convening of extraordinary general meeting

In accordance with the Articles, any one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice, to require an extraordinary general meeting (the "**EGM**") to be called by the Directors for the transaction of any business specified in such requisition. Such requisition shall be made in writing to the Board or the company secretary of the Company which is situated at Unit 702, Golden Centre, 188 Des Voeux Road Central, Hong Kong. The EGM shall be held within two months after the deposit of such requisition. If the Directors fail to proceed to convene such meeting within 21 days of such deposit, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals by Shareholders at Shareholders' meeting

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of the proposal (the "**Proposal**") with his/her/its detailed contact information at the Company's headquarters and principal place of business of the Company in Hong Kong, with a copy of the Proposal served to the Company's Hong Kong share registrar at their respective address. The request will be verified with the Company's Hong Kong share registrar and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the Hong Kong office of the Company at Unit 702, Golden Centre, 188 Des Voeux Road Central, Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENT

There is no significant change in the Company's constitutional documents during the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

Putian Communication Group Limited (hereafter, "**Putian**" or the "**Company**") and its subsidiaries (collectively known as the "**Group**" or "**we**") are pleased to present the Environmental, Social and Governance ("**ESG**") report mainly focuses on the Group's principle activities during 1 January 2022 to 31 December 2022 (the "**Year**" or the "**Reporting Period**"). The aim of the ESG report is to provide our stakeholders with a comprehensive understanding of our environmental, social and governance ("**ESG**") performance, initiatives and achievements, and to illustrate our long-term commitment to fulfilling our corporate social responsibility.

Scope of the Report

The ESG report mainly covers the environmental and social policies of the Group's business in manufacturing communication cable and focuses on the performance in environmental and social aspects of four major subsidiaries (2021: one subsidiary) of the Group. At the beginning of the Year, a factory of Jiangxi Changtian Optical Communication Co., Ltd. ("**Optical Communication**") was put into production, thereby the key performance indicators ("**KPIs**") disclosed for the Year focus on two factories located in Jiangxi Province, People's Republic of China ("**PRC**").

The abovementioned reporting boundaries were carefully determined by the Group based on the material entities and operations that have or will exert a great impact on the Group's business in long run. For the details of corporate governance, please refer to the Corporate Governance Report on pages 28 to 35 of this annual report.

Reporting Framework

The ESG report is prepared in accordance with Appendix 27 the "Environmental, Social and Governance Reporting Guide" under Main Board Listing Rules on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and in compliance with the "comply or explain" provision.

Reporting Principles

The content of the ESG report is determined through stakeholder engagement and materiality assessment process, which includes the identification of ESG-related issues, review of the management and stakeholders' opinions, assessing process for the relevance and materiality of the issues, preparation of the report, and validation of the disclosed information. The opinions of our stakeholders are adopted for identifying the key issues which are covered and discussed in this ESG report. Please refer to the section "Stakeholders Engagement" for details.

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 of KPIs are stated wherever appropriate. The Report is prepared on an unbiased picture of our performance without any sections, omission, or presentation that may inappropriately influence decision by reader. To enhance the comparability of the ESG report, the Group adopts consistent reporting format and methodologies for calculating KPIs as far as practicable. In case of any changes, explanation will be provided in the corresponding sections to facilitate information interpretation.

Information and Feedback

For more information on the Group's environmental and corporate governance, please refer to the official website (www.potel-group.com) and the annual report of the Group. If you have any comments or suggestions on this ESG report, please feel free to contact us via email at info@potel-group.com.

ESG BOARD STATEMENT

The Group believes that a sound ESG and sustainability framework builds the foundation for an optimum ESG performance and well-rounded sustainable development. In order to better monitor and manage the Group's policies, measures and work regarding ESG, the Board of Directors (the "**Board**") is directly responsible for the oversight of the Group's ESG-related issues, including formulating strategies and reporting material ESG matters, as well as assessing and determining ESG-related risks. The ESG performance of the Group is evaluated regularly to ensure its consistency with the Group's visions and initiatives, and the annual ESG report is reviewed and discussed to ensure its content is aligned with the Board's requirements and the Group's strategies.

Furthermore, the Board is responsible for executing and evaluating the stakeholder engagement process. The Board understands that ESG management involves various topics and therefore has conducted materiality assessment to identify issues that are likely to influence the business and our stakeholders, especially the environmental and social aspects. The issues would be reviewed and prioritised, and those with high significance to the Group and stakeholders are considered as material. The Board has concluded our material issues in "Stakeholders Engagement" section.

In order to further motivate the Group in pursuing higher ESG-related standards, the Board will continue to keep track with the latest announcement of the ESG reporting requirements in Hong Kong and set various goals and targets on ESG performance with reference to the Group's most material issues to its business and stakeholders whenever necessary. The Group also shares its progress in ESG with different stakeholders, most notably through the Group's annual ESG report.

STAKEHOLDERS ENGAGEMENT

The Group highly values the communication with its key stakeholders and takes the opinions from stakeholders as the basis for its formulation and implementation of short-term and long-term sustainability strategies. During the Year, stakeholders engagement and materiality assessment have been conducted, which enable us to understand the needs of stakeholders and identify our material topics regarding ESG.

Communication with Stakeholders

The Group promotes its approach and practices in ESG to stakeholders through effective communication channels, such as meetings, announcements, company websites and emails, as well as understanding and taking corresponding measures to meet stakeholders' requirements and expectations. The table below indicates our stakeholders' requirements and expectations of the Group, and the corresponding communication channels and responses for the stakeholders.

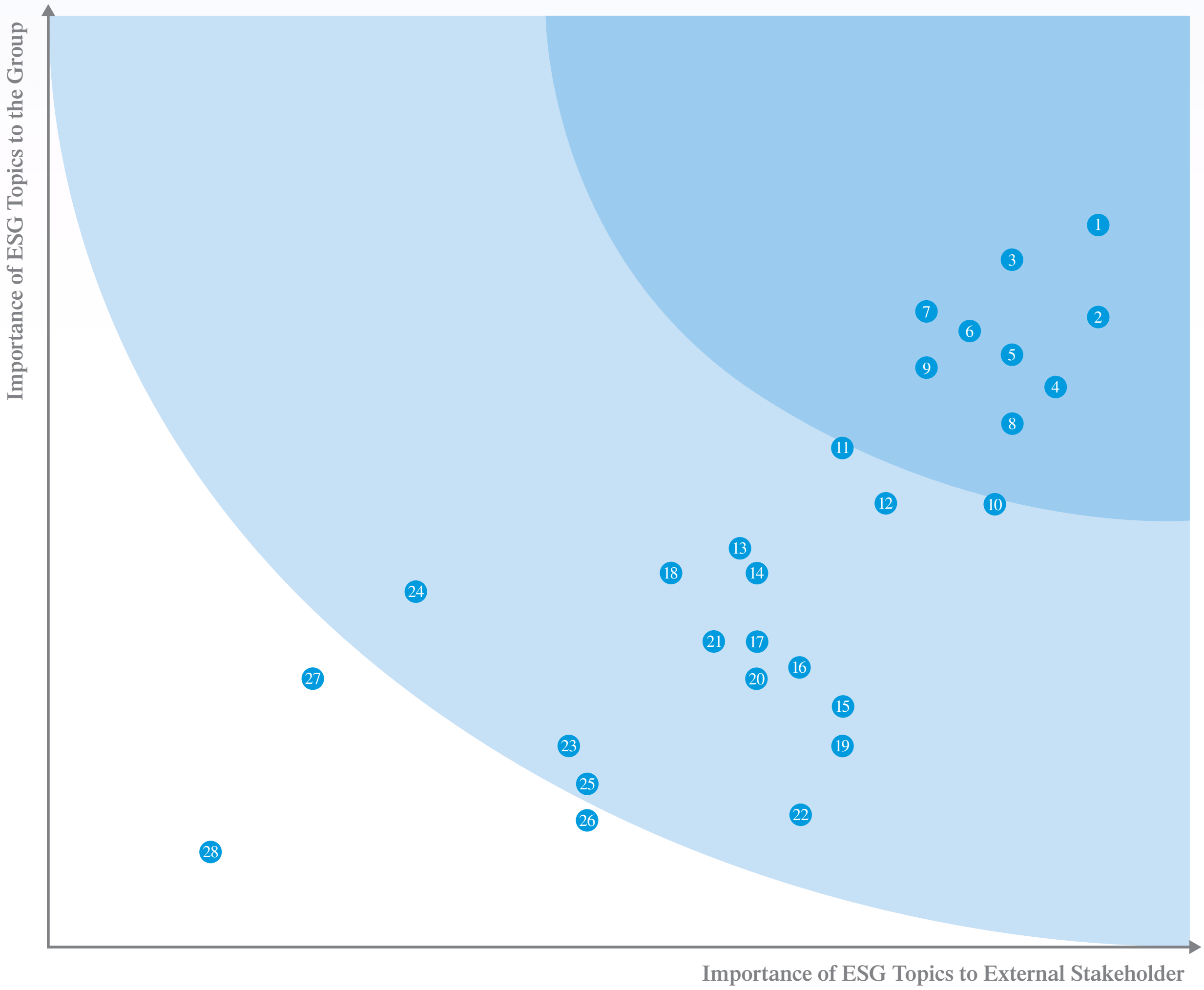
Stakeholders	Requirements and Expectations	Means of Communication and Response
Government and Regulators	• Compliance with national policies, laws and regulations • Support local economic growth • Drive local employment • Pay taxes in full and on time • Ensure production safety	• Compliance with national policies, laws and regulations • Support local economic growth • Drive local employment • Pay taxes in full and on time • Ensure production safety
Shareholders	• Returns • Compliant operation • Raise company value • Transparency in information and effective communication	• General Meetings • Announcements • Email, telephone communication and company website • Dedicated reports • Site visits
Business Partners	• Operate with integrity • Equal Rivalry • Performance of contracts • Mutual benefit and win-win result	• Review and appraisal meetings • Business communications • Exchanges and discussions • Engagement and cooperation
Customers	• Outstanding products and services • Health and safety • Performance of contracts • Operate with integrity	• Outstanding products and services • Health and safety • Performance of contracts • Operate with integrity
Environment	• Compliant emission • Energy saving and emission reduction • Ecosystem protection	• Communicate with local environmental department • Communicate with the locals • ESG Reporting
Industry	• Establishment of industry standards • Drive industry development	• Participate in industry forums • Visits and inspections
Employees	• Protection of rights • Occupational health and safety • Remunerations and benefits • Career development • Humanity cares	• Employee communication meetings • House journal and intranet • Employee mailbox • Training and workshop • Employee activity
Community and the Public	• Improve community environment • Participation in charity • Transparent information	• Improve community environment • Participation in charity • Transparent information

Materiality Assessment

In identifying potential material topics in respect of the Group's ESG performance that might affect its business or stakeholders, the Group conducting annual questionnaire survey to understand the opinions and expectations of the stakeholders for the Group's responses and the disclosure of ESG issues. Based on actual business activities and the industry characteristics, the Group identified and determined 28 environmental, social and governance related issues and invited both internal and external stakeholders to express their opinion on such 28 issues in terms of materiality.

The following matrix states all related issues which are material to the stakeholders, whilst the results shown on the top-right area represent the issues that are more significant for the Group in formulating future environmental, social and governance plans and objectives, aiming to create sustainable value for stakeholders.

Materiality Assessment Matrix



Item	ESG Topic	Item	ESG Topic
1	Energy use (e.g. electricity, gas, fuel)	15	Environmentally preferable products and services
2	Water use	16	Environmental risks (e.g. pollution) and social risks (e.g. monopoly) of the suppliers
3	Greenhouse gas emissions	17	Selection and monitoring of suppliers
4	Climate change	18	Product and service labelling
5	Air emissions	19	Product health and safety
6	Mitigation measures to protect environment and natural resources	20	Customer satisfaction
7	Use of materials (e.g. paper, packaging, raw materials)	21	Customer information and privacy
8	Hazardous waste production	22	Observing and protecting intellectual property rights
9	Non-hazardous waste production	23	Marketing communications (e.g. advertisement)
10	Employee development and training	24	Anti-corruption training provided to directors and staff
11	Preventing child and forced labour	25	Anti-corruption policies and whistle-blowing procedure
12	Employee remuneration, benefits and rights (e.g. working hours, rest periods, working conditions)	26	Number of concluded legal cases regarding corrupt practices, e.g. bribery, extortion, fraud and money laundering
13	Diversity and equal opportunity of employees	27	Cultivation of local employment
14	Occupational health and safety	28	Community support (e.g. donation, volunteering)

By analysing the results of the questionnaire survey and the materiality maps related to the business with consideration to the actual business operation, the Group has identified 7 material topics which are disclosed in detail in the ESG report.

Material topics	Corresponding sections
Energy Management	Environmental Protection • Resources Conservation
Waste Management	Environment Protection • Emission Treatment
Employment Compliance and Labor Management	Value of Our People
Operational Compliance	Operating Practices
Material Sourcing & Efficiency	Operating Practices • Supplier Management
Quality Management	Operating Practices • Quality Assurance
Business Ethics	Operating Practices • Respect of Intellectual Property Rights and Privacy • Anti-Corruption

After reviewing the identified materials topics related to the ESG aspects, the importance of the ESG performance is recognised and that would be our ongoing process in reaching our future improvements.

ENVIRONMENTAL PROTECTION

As a communication cable manufacturer and a structured cabling system product provider, the Group protects the environment at the area where it operates while striving to develop business. The Group strictly complies with relevant laws and regulations concerning wastes, air emissions and wastewater, such as the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC and the National Environmental Emergency Response Plan. The Group strives to reduce its carbon footprint during the course of business, and attach great importance on emission control, recognized by GB/T24001-2016/ISO14001:2015 Environmental Management System Certification Certificate.

To ensure the safety of the surroundings as well as to raise the awareness of employees in each division to deal with emergency issues, the Group has implemented a complete emergency planning system and conducts regular drills for its employees. In case of an environmental pollution incident, will take prompt action and response to minimise hazards and prevent deterioration of the incident. Looking forward, we will deliberate on the prevention of hazards and environmental pollution, and energy and resources conservation at the research and development stage, as well as consider environmentally friendly development and advocate the use of harmless and safe technology during product design, on the premise that the product quality is assured.

Emissions Treatment

During the reporting period, air emissions were generated from vehicles and oil fume from canteen. The oil fumes from canteens will be emitted at high altitude after being treated by oil fume purifiers. To reduce air emissions and maintain efficiencies of oil fume purifiers, the Group keeps the oil fume purifiers clean in the canteens.

Frequent travel between factories is necessary. The use of vehicles is unavoidable due to the consideration of employees' health during the pandemic and inclusion of business activities of Optical Communication in the Year. In order to reduce the air emission, the Group performs regular maintenance and repairs on its vehicles to keep them in good condition.

The air emissions of the Group during the Year are as follows:

Air Emission	Unit	2022	2021
Nitrogen oxides (NOx)	kg	**86.98**	9.60
Sulphur oxides (SOx)	kg	**1.13**	0.20
Particulate matter (PM)	kg	**8.33**	0.70

Notes:

- The above air emission data have been compiled with reference to "How to prepare an ESG Report — Appendix II: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.
- The significant increases in NOx, SOx and PM are mainly due to the inter-plant traffic and the inclusion of Optical Communication business activities in 2022.

The greenhouse gas ("**GHG**") emissions were composed of direct emissions from stationary combustion and use of vehicles; energy indirect emissions from purchased electricity, and other indirect emissions from electricity used for fresh water and sewage processing by local government and overseas business travel. As to the target of greenhouse gas emissions, we aim to reduce the overall emissions on a short-term basis through vehicle emissions, energy consumption and water consumption which account for the majority of total emissions. The objectives for the specific aspects are discussed in the relevant sections. The greenhouse gas emissions of the Group as follows:

GHG	Unit	2022	2021
Total GHG emissions	tonnes CO_2e	**2,726.39**	2,048.00
GHG emissions per square metre	tonnes CO_2e/M^2	**0.04**	0.05
GHG emissions per revenue	tonnes CO_2e/RMB'000	**0.004**	0.003
Scope 1 – Direct emissions	tonnes CO_2e	**216.20**	49.00
Scope 2 – Energy indirect emissions	tonnes CO_2e	**2,489.22**	1,985.00
Scope 3 – Other indirect emissions	tonnes CO_2e	**20.97**	15.00

Notes:

- The above air emission data have been compiled with reference to "How to prepare an ESG Report — Appendix II: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.
- The increase in total GHG emission is mainly due to the inter-plant traffic and the inclusion of the data of Optical Communication in this Year.

Waste scrap and incoming packaging materials from the production activities were the major non-hazardous wastes of the Group and were recycled as far as possible. Another type of non-hazardous wastes was domestic garbage, which is collected and processed collectively by the local environmental hygiene department in the Year. When there is hazardous waste produced, the Group will engage qualified companies for further handling. By means of enhancing production activities, the Group utilises the raw materials to the greatest extent to reduce waste scrap produced. During the Year, the Group has set a target for controlling the amount of paper waste. In order to achieve the target, the Group has spearheaded the initiatives of reusing paper and urged employees to reduce paper consumption in the workplace. The Group also encouraged its employees to reduce the usage of disposable and non-recyclable products in respect of waste reduction.

During the Year, there was no hazardous waste produced by the Group (2021: 0 tonne). The data of non-hazardous waste generated from the Group is as follows:

Waste	Unit	2022	2021
Total non-hazardous waste generated	tonnes	**69.70**	217.00
Total non-hazardous waste generated per square metre	tonnes/M^2	**0.001**	0.005
Total non-hazardous waste generated per revenue	kg/RMB'000	**0.0001**	0.35

Note:

- The non-hazardous waste generated by the Group includes waste scrap and domestic waste only. The amount of waste scrap generated was based on the actual record of the Group. The amount of domestic waste was based on the daily estimated volume of domestic waste in office.

The Group did not produce or discharge any industrial wastewater in the production activities, while domestic sewage generated will be pretreated in the septic tank before discharging into the municipal sewage pipe network.

Resources Conservation

We have formulated an Energy Conservation and Emission Reduction policy to promote the concept of low-carbon life and green office, and adopted various measures to reduce resource consumption and encouraging our staff to participate in environmental protection. We acknowledge the opportunities of reducing energy and water consumption through daily operation. Therefore, we have set directional targets for both energy and water reduction through raising the environmental awareness of employees. We provided various training for our employees to introduce the meaning of resources conservation and measures that they can practice to protect the environment. During the Year, the Group has organised additional environmental training to further promote energy and water conservation as well as low-carbon lifestyle for employees.

The Group endeavours to improve energy management by reducing electricity consumption and using energy efficiently in different aspects. For electricity, employees are encouraged to switch off idle lighting system and other electronics, such as printers and computers, and take full advantage of sunlight whenever possible. We also recommend our employees to adjust the brightness of computers to protect not only the environment but also their eyesight. Energy-efficient lighting and air conditioners are adopted, and lighting appliances and filters for air conditioners are cleansed regularly to improve energy efficiency. We also advocate to turn off air-conditioning system one hour earlier each day and set the minimum temperature to around 26 degrees Celsius. We discourage employees to turn an air conditioner on and off repeatedly which could cause a waste of energy. By means of regular checking and maintenance, the possibility of leakage of refrigerant has been reduced. The energy consumption of the Group is as follows:

Energy Consumption	**Unit**	**2022**	2021
Total energy consumption	MWh	**4,992.01**	3,936.00
Energy consumption per square metre	MWh/M^2	**0.07**	0.09
Energy consumption per revenue	MWh/RMB'000	**0.008**	0.006
Purchased electricity	MWh	**4,080.01**	3,775.00
Gasoline	MWh	**824.19**	153.00
Liquefied petroleum gas ("**LPG**")	MWh	**87.81**	8.00

Notes:

- The methodology adopted for reporting on consumptions set out above was based on "How to Prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.
- Based on the actual energy consumption record of the Group.
- The increases in electricity and LPG consumption are mainly due to the production needs of the Optical Communication factory during 2022; the significant increase in gasoline consumption was due to the increased in intra-plants traffic.

To raise the water saving awareness of employees, the Group has posted water saving notices in every lavatory and employees are reminded to turn off the faucet tight after use. The Group also conducts tests to hidden leaking pipes and monitors water meters regularly to prevent leaking and wasting water. Meanwhile, water is reused as far as possible. For instance, employees are encouraged to reuse the water for watering plants after scrubbing fruits and vegetables. In addition, we generally do not provide bottled water for meetings and employees are not allowed to wash containers with mineral drinking water. During the Year, the Group did not identify any issues in sourcing water for business operations.

The water consumption of the Group is as follows:

Water consumption	**Unit**	**2022**	2021
Total water consumption	M^3	**27,062.00**	10,038.00
Water consumption per square metre	M^3/M^2	**0.40**	0.24
Water consumption per revenue	M^3/RMB'000	**0.04**	0.02

Notes:

- The methodology adopted for reporting on consumptions set out above was based on "How to Prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.
- Based on the actual water consumption record of the Group.
- The significant increase in water consumption is mainly due to the high production demand of Optical Communication factory and the daily water needs of employees.

Concerning the use of material, the Group conducts an evaluation on the usage of material to avoid overstock. During the Year, the Group used packaging materials including metal, wood, plastic, fibre fabric and paper, in which plastic and paper were used to pack products in both kilometres and pieces. Detailed usage of packaging materials is as follows:

Optical Fibre Cables and Communication Copper Cables:

Types of Package Material	**2022**		2021	
	Total Amount (kg)	**Amount per Unit Produced (kg/km)**	Total Amount (kg)	Amount per Unit Produced (kg/km)
Metal	**294,690.00**	**1.7**	378,000.00	0.9
Wood	**24,972.00**	**0.1**	33,000.00	0.2
Plastic	**531,957.00**	**3.1**	699,000.00	1.6
Fiber Fabric	**57,013.00**	**0.3**	70,000.00	0.2
Paper	**343,784.00**	**2.0**	426,000.00	2.0

Note:

- Based on the actual package material record of the Group.

Structured Cabling System Products:

Types of Package Material	**2022**		2021	
	Total Amount (kg)	**Amount per Unit Produced (kg/pcs)**	Total Amount (kg)	Amount per Unit Produced (kg/pcs)
Plastic	**2,910,894.00**	**0.993**	4,423,000.00	0.979
Paper	**6,030.00**	**0.002**	9,000.00	0.002

Note:

- Based on the actual package material record of the Group.

Green Operation

As a responsible corporate citizen, the Group attaches great importance to sustainability development and strives to promote green operation among its employees, in a bid to reduce greenhouse gas emissions from its business operation. For instance, in a bid to fortify the management of the use of office expenses and stationary, we purchase low-carbon and energy-efficient equipment. By posting reminders to advocate saving paper in office, the Group encourages employees to recycle and reuse paper, for example, using paper on both sides and using used paper to make notes, as well as to utilise digital means for internal and external communication to replace paper circulation. The amount of paper used is also counted on a regular basis to monitor the usage. In addition, employees are encouraged to use refillable pens instead of disposable markers and ball pens. Conducting video conferences is suggested to substitute for non-essential overseas business trips, while direct flights are recommended for inevitable overseas business trips to reduce greenhouse gas (“**GHG**”) emissions.

Climate Change

Climate change is rapidly emerging as one of the most significant issues across countries and is closely related to all businesses regardless of their nature. Being aware of the consequences brought by the changing climate, the Group has taken various measures to identify and mitigate climate-related risks. The Group regularly reviews global and local government policies and regulations regarding climate change to identify potential climate-related risks and opportunities that may have financial impacts on the Group’s business.

During the Year, the Group has recognised physical risk brought by the increased severity of extreme weather events. It may lead to transportation difficulties and supply chain interruptions, thus decreasing production capacity. Extreme weather also has negative effects on the physical structure of the Group’s facilities, thereby increasing maintenance cost, and employees’ health and safety may be threatened. The Group may also face transition risks such as policy risks due to increasingly stringent policies and enhanced emissions-reporting obligations. Reputation risk may also occur with growing concerns of stakeholders such as the Group’s responses to climate change, whether the goods and services provided are environmental-friendly, etc.

To mitigate climate-related risks, the Group has put effort into different aspects. We have formulated Emergency Plan for Extreme Weather Conditions and Natural Disasters Policy to ensure the safety of our employees and properties. Regular inspection of the factory structure and electric appliances will be carried out to eliminate any hidden dangers. Employees will receive training on the response and action when facing extreme weather such as floods, typhoons and heavy rainstorms. We will also issue early warnings based on information from local government and make sure employees stay in a safe indoor environment. On top of the above, to better address stakeholders’ concerns, the Group would communicate with and update our stakeholders regarding climate-related impacts and our climate change strategies in a timely manner.

VALUE OUR PEOPLE

The dedication and contributions of employees are essential to the long-term and sustainable development of the Group. We understand that well-established employment policies enable us to attract and retain talents. Apart from complying with the laws and regulations concerning employment, occupational safety and labour standards, including but not limited to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Law on the Protection of Minors of the PRC, the Law of the PRC on the Prevention, the Control of Occupational Diseases and the Work Safety Law of the PRC, we established Staff Manual and comprehensive Company Welfare Policies to provide a positive working environment to our employees. During the Year, We have presented Year-end awards as an acknowledgement for employees’ contributions towards the Group.

Employees' Rights and Interests

The Group has established a defined human resources procedure to regulate and manage recruitment procedures, aiming to recruit appropriate talents in a fair manner with integrity. During the recruitment process, each job applicant is entitled to equal opportunity of the job offer, regardless of his/her age, gender, ethnicity, religious belief, marital status and disability, as long as his/her working experience, technical expertise and qualification are fulfilling the job requirements. The Group always requires employees to preserve good discipline and create cordial and harmonious atmosphere in the workplace. We have no tolerance for any forms of discrimination, threat and humiliation. We shall investigate any misbehaviour cases reported and discipline the related parties. Upon receipt of resignation from an employee, we will conduct an exit interview to understand his/her reason for resignation.

To prevent misemploying child labour, job applicant's identification documents are also required for age verification. Once such labour practices are discovered, the Group would investigate the cases thoroughly and dismiss related employees immediately. With a view to safeguarding employees' rights and interests, we enter into employment contracts with employees before they report duties, which clearly define the job duties and working location to avoid forced labour.

As at 31 December 2022, the Group hired total 585 employees (2021: 253) and the turnover rate is 52% (2021: 32%). A higher number of employees and turnover rate were recorded due to the inclusion of employees from Optical Communication during the Year. Detailed numbers of employees and the corresponding turnover rate by different categories are as follows:

Number of Employees	2022	2021
By Gender		
Male	364	176
Female	221	77
By Age Group		
Below 30 years old	134	39
Between 30 to 50 years old	383	171
Over 50 years old	68	43
By Employment Type		
Full-time	585	237
Part-time	–	16
By Geographical Region		
The PRC	584	253
Hong Kong	1	–

Turnover Rate (%)	2022	2021
By Gender		
Male	56%	35%
Female	44%	26%
By Age Group		
Below 30 years old	97%	44%
Between 30 to 50 years old	42%	30%
Over 50 years old	21%	28%
By Geographical Region		
The PRC	52%	32%
Hong Kong	–	–

Employees are valuable assets of the Group, therefore we provide our employees with attractive benefits. We strive to ensure the working hours and remuneration of employees are compliant with the requirements of relevant laws and regulations, in which our employees are entitled to compensation upon required overtime working, as well as the rights of taking vacation leaves. Meanwhile, according to the requirements of the local government, we also make contributions to the Social Insurances and Housing Provident Fund for our employees. Based on internal and external reference standards, our remuneration structure is annually reviewed so as to maintain the competitive remuneration offered to employees. We have also implemented annual appraisal system to evaluate the working performance of employees. Employees with outstanding performance may be rewarded with a pay rise or discretionary bonus in recognition of their contributions.

Training and Development

We have put great emphasis on providing training for employees in order to cater for the requirements of various positions. We have designed appropriate annual training programs for employees. We have provided induction training for new employees to familiarize with the corporate's culture, regulations and policy and the sense of safety production. We require every new hire to complete and pass a test after attending the training program. We provide monthly training to instill energy conservation and safety production, as well as senses of professionalism in our employees. We also provide them training courses related to production techniques and testing procedures, so as to enhance their technical and product knowledge as well as their understandings of quality standards in the industry and safety standards at the workplace. Besides, we offer tailor-made training to manager-level employees quarterly to enrich their managerial and operational skills, and enhance their abilities of resilience. The average training hours per employee and percentage of trained employees of the Group as follows:

	2022		2021	
Indicators	**Average Training Hours per Employee (hours)**	**Percentage of Trained Employees (%)**	Average Training Hours per Employee (hours)	Percentage of Trained Employees (%)
By Employee Category				
Senior	**47**	**3%**	42	88%
Intermediate	**59**	**15%**	44	81%
Junior	**40**	**82%**	26	65%
By Gender				
Male	**43**	**62%**	28	65%
Female	**43**	**38%**	32	74%

A clear career path is offered to our employees. Apart from the demands for positions, employees with an outstanding performance during annual appraisal may be given promotion opportunities, so that suitable talents will be recognised.

Health and Safety

Work safety and personal safety of employees always come first during the business operation of the Group, thereby we have formulated Occupational Health and Safety Management Policy and Production Workshop Safety Manual to safeguard the safety of our staff. We have continued to implement safety guidelines and organised educational activities for promoting the prevention of occupational diseases on a regular basis, such as reminding employees to keep the workplace clean at all time and explaining the laws and regulations in respect of occupational diseases and preventive measures to strengthen employees' safety awareness. Employees shall strictly comply with the working and operational procedures, and the laws and regulations in respect of occupational health and safety, so as to prevent accidents and occupational diseases consciously.

The Group has obtained the certificate of GB/T28001-2011/OHSAS18001:2007 Occupational Health and Safety Management System Certification for its sound occupational health and safety management system. The Group provides various types of safety training which include safety techniques and education on safety knowledge and awareness for employees, especially those who may exposed to occupational hazards.

During the Year, the Group has assigned related personnel to attend online safety training program organised by the governmental institution for enriching their knowledge pertaining to safety precaution.

Prior to work, employees at such positions are required to undergo occupational diseases examination to ensure their health condition, while those at particular positions have to attend the operation safety assessment and acquire qualified licenses. The Group carries out regular, surprise and special safety checks within the factories to discover any safety issue and take corrective actions accordingly for the prevention of incidents. Meanwhile, traffic signs have been placed within the industrial park to alert employees to road traffic safety.

The Group places high importance on fire safety and implements fire precaution measures. The Group conducts inspection regularly on fire safety equipment and extinguishers in particular. The plants, which have a relatively high risk of safety, are segregated from construction area and the office to minimise the impact of incidents. Furthermore, employees are not allowed to smoke outside the designated smoking area. During the Year, the Group has organised a training program pertaining to fire safety. The training has raised our employees' awareness towards safety production by introducing cases of fire accidents in PRC and the instruction of a fire extinguisher.

Moreover, hazardous chemicals are stored separately with clear labels, while personal protective equipment is provided to employees according to the needs of various positions. Designated personnel are assigned to monitor and ensure that employees wear appropriate personal protective equipment. Also, the Group conducts regular checks on the performance and effectiveness of occupational diseases protective equipment and personal protective equipment to make sure proper function, as well as identifies the occupational hazards in workplace annually, so as to create a healthy and safe working environment for its employees.

During the Year, the Group did not record work injuries and lost days due to work-related injury. The number and rate of work-related fatalities occurred in each of the past three years including the Year are as follows:

Indicators	For the year ended 31st Dec 2022	For the year ended 31st Dec 2021	For the year ended 31st Dec 2020
Number of work-related fatalities	0	0	0
Rate of work-related fatalities (%)	0	0	0

Response to Coronavirus Disease 2019

In light of the outbreak of Coronavirus Disease 2019 ("**COVID-19**") worldwide, the Group has strictly abided to relevant preventive regulations carried out by the regional government, and implemented various control and preventive measures to ensure the health and well-being of employees. For example, we strengthened disinfection and cleaning throughout the office, as well as kept the office ventilated and maintained employees' social distance. Employees and visitors at the Group's premises were required to wear face masks as well as to take body temperature measurements before entering the premises. In addition, we provided the guideline for the prevention of COVID-19 so as to improve employees' awareness.

During the Year, the Group greatly promoted COVID-19 vaccination in the workplace, discouraged face-to-face gathering and clients' meeting, and advocated postponements of wedding and funeral.

OPERATING PRACTICES

The Group aims to provide products and services of high quality in meeting customers' expectations. On top of complying with relevant laws and regulations concerning product quality and safety, advertising, labelling and privacy, including but not limited to the Product Quality Law of the PRC, Copyright Law of the PRC, Patent Law of the PRC, Advertising Law of the PRC and Personal Information Protection Law of the PRC, we strictly manage supply chain and monitor the quality of raw materials and products. Besides, we have taken measures to protect intellectual property rights and customer's privacy to safeguard their rights and interests.

Supplier Management

To secure a stable supply of goods, the Group has maintained a positive business relationship with suppliers. To this end, the Group continues to execute our supplier management system for the selection and evaluation of suppliers as set out in our Procurement Process Policy. The procurement department is responsible for the selection of suppliers of raw materials, production equipment and fixed assets, while the administration department is responsible for the selection of other suppliers such as office supplies and daily necessities. In order to minimise the environmental and social risk of our suppliers, several factors are taken into account when selecting suppliers that include product quality, production capacity, delivery time and reputation in the market. Only qualified suppliers who meet our requirements will be included in the list of qualified suppliers. We will then sign contracts with suppliers, indicating the requirements regarding quality, logistics packaging and storage, and the punctuality of delivery. Qualified suppliers are required to pass the annual assessments, which include reviewing their performances during the past year, and any suppliers with sub-standard performance will be removed from the list, thereby reducing the potential impacts of the supply chain on our products and services.

The following table summarises the geographical distribution of suppliers during the Year.

Geographical Region	2022	2021
Northern China	8	6
Northeastern China	–	1
Eastern China	91	85
South-central China	37	42
Southwestern China	1	2
Total	137	136

Moreover, the Group is conscious of practicing green procurement. The procurement department determines the demand of raw materials according to the monthly production and sales plan, and adjusts according to the inventory and in-transit quantities so as to avoid overstock which may lead to wastage. We also consider suppliers with minimum order quantity and minimum use of packaging. The Group also upholds an ethical procurement policy and is committed to sourcing raw materials from suppliers that value social responsibility. In addition, the environmental, health and safety performance of suppliers are factors that the Group will consider when selecting suppliers. We also give priority to suppliers with ISO quality or environmental management system certification.

Quality Assurance

A rigorous quality control system of products is vital for offering products and services of high quality. We have formulated the Quality Management Policy to ensure the quality of the entire process from procurement, production, product inspection to after-sale customer services, we adhere to our quality control system which analyses the factors that affecting our product quality, production efficiency and raw material utilisation rates, thereby reducing any issues that may affect the product quality. The Group has obtained the certificate for GB/T19001- 2016/ISO9001:2015 Quality Management System.

Our quality control personnel conduct quality inspection on each batch of raw materials upon receipt. Only raw materials passed our tests are admitted into inventory, while defective items will be returned to the suppliers or be replaced. During the production process, we strictly follow the requirements of ISO9001:2015 standards for product quality control. Work-in-progress is tested after each production process, among which only those passing quality control tests are allowed to proceed to the next production stage. To ensure the quality and reliability of our products, finished products are tested in terms of structure as well as electrical and mechanical performance to ensure that the quality of products meets the requirements of customers. All work-in-progress and finished products are labeled for future traceability. In addition, we have specific packing and delivery instructions in place for each category of product to ensure the safety and quality of products during transportation. Upon the delivery of products, we will conduct on-site product inspection together with customers. In case of any unqualified products, reasons would be tracked and identified via labeling and production record keeping system. If the unqualified products are identified with quality issues, they will be reworked where possible and those unable to be processed will be treated as waste.

Customer Oriented

We have formulated After-sales Service and Technical Support Policy according to the needs of customers, extensive after-sales services are provided to customers, including technical training and exchange session, question and answer session respecting products, and regular communication. We typically offer a maintenance period of one to three years. Our employees are responsible for responding to our customers and conducting on-site examination upon receipt of any customer service request relating to the quality of products. Meanwhile, employees coordinate with technical team to diagnose and resolve the relevant technical issues. Our customer service team would respond to customer inquiries and service requests in a timely manner through various channels. Customer complaints are referred to relevant departments for handling, and customer service team would handle relevant complaints closely until they are resolved. We appreciate that customers' comments are beneficial to our improvements, for which we also conduct annual customer surveys to collect feedback on products and services and better understand the changing needs of customers. Furthermore, all public production sales and market information shall be reviewed to make sure that there is no false or misleading information that may cause any misunderstanding of our customers.

During the Year, the Group did not receive any complaints related to our products and service quality and no products sold are subjected to recalls for safety and health reasons.

Respect for Intellectual Property Rights and Privacy

The Group highly values the research and development and enhances the product design with reference to the developing trend of domestic and foreign technology and the market. During the Year, the Group was awarded by various parties, including but not limited to, Intelligent Manufacturing of Production Base (生產基地智能製造), Demonstration Base for Communication Products Production (通信產品生產示範基地), and Green Enterprise issued by China Enterprise Certification Supervision Center (中國企業認證監督中心) and China Quality Certification Management Evaluation Center (中國質量認證管理評估中心); 2022 Specializing Small and Medium Enterprise in Jiangxi Province (2022年江西省專精特新中小企業) by Department of Industry and Information Technology of Jiangxi Province (江西省工業和信息化廳).

We also understand the importance of protecting and enforcing our intellectual property rights, thereby we formulated Provisions on Intellectual Property Management Policy to safeguard our intellectual property rights. During the Year, 11 new patents in the PRC in terms of technologies relating to cable manufacturing and processing, optical fiber automatic unwinding device, and fire prevention cable have been authorised. Being respectful for others' intellectual property rights, we strictly abide by the laws and regulations relating to intellectual property rights including but not limited to the Trademark Law of the PRC, the Patent Law of the PRC and the Copyright Law of the PRC, and conduct promotion and training for our employees on intellectual property rights. We require our employees to keep confidential for all information relating to our transactions, operation, management, technology and skills, etc., during their employment and within two years after resignation, as set out in Confidential Information Guidance. To avoid any infringement of the exclusive right of our trademarks, prior approval shall be obtained from us before other party intends to use our trademark and licensees shall follow Trademark Licensing Provisions developed by the Group.

Meanwhile, we attach great importance to the privacy of our customer and thereby established a confidentiality system. Our employees shall sign confidentiality agreements before their employment to undertake that they will not disclose any customers' information to any third party. To safeguard the information security and protect the customers' privacy and data, our employees are required to use the designated anti-virus software and shall not use any unauthorised software or hardware or bring any company's information away from their workplace. Employees shall encrypt the files that contain sensitive information of the Group as well for better data protection.

Anti-Corruption

To uphold our business integrity and provide quality service, the Group is dedicated to training our employees with a working attitude of acting by law including but not limited to the Criminal Law of the PRC and being honest and trustworthy. Besides, we continue to follow the internal mechanism in our Anti-Corruption Policy of preventing commercial bribery for which, our core personnel and those individuals and units that have business relationships with us shall sign up an agreement to avert commercial bribery and corruption in any kinds and to regulate the behaviours of the parties, aiming to uphold the integrity and be self-disciplined. The Group has designated a department to be in charge of the supervision and management of the commitment mechanism in accordance with relevant laws and regulations concerning bribery, thereby strictly prohibiting bribery and corruption from its source. Through conducting investigations and researches, we identify the characteristics of the misconduct of trading and commercial bribery, enabling us to adopt corresponding strategies and measures to deal with the potential risks arising from operation on a timely basis. Whistleblowing mailbox and hotline are set up for employees in reporting relevant commercial bribery and the identity of the whistle blower will be kept confidential.

At the same time, our employees should obey our requirements regarding conflict of interests and declare their possible conflict of interests, while being prohibited to solicit money or personal benefits by abusing their powers or convenience from their work, such as receiving gifts, money, loans, services or any compensation from units or individuals seeking to establish business relationship with us. In case of identifying any conducts or occurrences that may violate the requirements, employees are encouraged to report the event to his/her supervisor or via our established hotline or mailbox.

During the Year, the Group has no concluded legal cases regarding corrupt practices. We have provided total of 2,766 hours anti-corruption related training to employees, including 3 directors and 582 staffs. The training instils positive moral concepts and values to employees, especially to those from the financial and procurement departments. The training provides the essential anti-corruption information, such as the Group’s commitment to honesty and integrity, precautionary actions, and control measures, to employees which enhance their awareness on the prohibition of commercial bribery and remind them the business ethnics and responsibility.

COMMUNITY INVOLVEMENT

The Group acknowledges the obligation to make contributions to the community. The Group keeps on encouraging its employees to actively participate in social and charitable activities in the community, and provides disabilities with job opportunities so as to offer assistance to the vulnerable group. Due to the severity of COVID-19, we did not hold any activities in this Year as the concern for the health of our employees and reduce frequency of face-to-face contact.

CONTENT INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

ESG Indicators	Summary	Sections	Page
Environmental			
Aspect A1: Emissions	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection Emissions Treatment	41-45 41-42
Aspect A2: Use of Resources	**General Disclosure** Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Protection Resources Conservation	41-45 43-44
Aspect A3: The Environment and Natural Resources	**General Disclosure** Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Protection Green Operation	41-45 45
Aspect A4: Climate Change	**General Disclosure** Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Environmental Protection Climate Change	41-45 45
Social			
Employment and Labour Practices			
Aspect B1: Employment	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Value Our People Employees' Rights and Interests Training and Development	45-49 46-47 47

ESG Indicators	Summary	Sections	Page
Aspect B2: Health and Safety	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Value Our People Health and Safety Response to Coronavirus Disease 2019	45-49 48 49
Aspect B3: Development and Training	**General Disclosure** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Value Our People Training and Development	45-49 47
Aspect B4: Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Value Our People Employees' Rights and Interests	45-49 46
Operating Practices			
Aspect B5: Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain.	Operating Practices Supplier Management	49-52 49-50
Aspect B6: Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Operating Practices Quality Assurance Customer Oriented Respect for Intellectual Property Rights and Privacy	49-52 50 51 51
Aspect B7: Anti-corruption	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of bribery, extortion, fraud and money laundering.	Operating Practices Anti-Corruption	49-52 52
Community			
Aspect B8: Community Investment	**General Disclosure** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Involvement	52

INDEPENDENT AUDITOR'S REPORT

MOORE

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大華馬施雲
會計師事務所有限公司

TO THE MEMBERS OF PUTIAN COMMUNICATION GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Putian Communication Group Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 60 to 112, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

REVENUE RECOGNITION

Refer to summary of significant accounting policies in Note 4.8 and disclosure of revenue in Note 7 to the consolidated financial statements.

The Group is principally engaged in the communication copper cables, optical fibers and optical fiber cables and structured cabling system products business.

Revenue represents income from production and sales of communication copper cables, optical fibers and optical fiber cables and structured cabling system products sourced from Mainland China.

The Group enters into sale and purchase agreements with the telecommunications network operators and non-operators and in accordance with the terms of the agreements, revenue is recognised at the amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods to the telecommunications network operators and non-operators.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the recognition of revenue by management to meet specific targets or expectations.

OUR RESPONSE

Our procedures in relation to assess the recognition of revenue included the followings:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls which govern revenue recognition;
- Inspecting sale and purchase agreements, on a sample basis, to understand the terms of delivery and assess whether management recognised the related revenue in accordance with the Group's accounting policies, with reference to the requirements of the prevailing accounting standards;
- Comparing sales records for a sample of sales transactions recorded during the year with relevant underlying documents, which included sales invoices and good delivery notes with evidence of the customers' receipt of the goods and the date of receipt of the goods by the customers;
- Obtaining confirmations, on a sample basis, from major customers of the Group of sales transactions during the year, for unreturned confirmations, performing alternative procedures by comparing details of the transactions with relevant underlying documents;
- Comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with the underlying sale and purchase agreements and good delivery notes to determine whether the related revenue had been recognised in the appropriate financial period; and
- Scrutinising all journals affecting revenue raised during the reporting period and comparing details of a sample of these journals, which met certain risk-based criteria, with relevant underlying documentation.

IMPAIRMENT ASSESSMENT OF TRADE AND BILLS RECEIVABLES

Refer to summary of significant accounting policies in Note 4.6(ii), critical accounting estimates and judgements in Note 5(ii) and disclosure of trade and bills receivables in Notes 19 and 38(b) to the consolidated financial statements.

As at 31 December 2022, the Group had net trade and bills receivables amounting to approximately RMB382,985,000, after making expected credit loss allowance of approximately RMB7,562,000.

The Group's expected credit loss ("**ECL**") allowance is measured at an amount equal to lifetime ECL based on management's estimated loss rates for each category of trade and bills receivables. The estimated loss rates take into account the aging of the trade and bills receivables, overdue balances, information regarding the ability and intent of the debtor to pay as well as historical data on default rates.

We have identified impairment assessment of trade and bills receivables as a key audit matter due to considerable amount of judgement and estimates being required in conducting impairment assessment as mentioned in the forgoing paragraph.

OUR RESPONSE

Our procedures in relation to management's impairment assessment on trade and bills receivables included the followings:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the calculation of the ECL;
- Assessing the trade and bills receivables ageing report by group based on shared credit risk characteristics and the days past due by comparing the details of individual items with underlying invoices on a sample basis;
- Comparing cash receipts from debtors subsequent to the financial year end relating to trade and bills receivable balances as at 31 December 2022 with relevant underlying documents on a sample basis; and
- Obtaining an understanding of the basis of management's approach to measuring ECL of trade and bills receivable balances and assessing the reasonableness of management's expected credit loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rate is appropriately adjusted based on current economic conditions and forward-looking information.

OTHER MATTER

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

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's 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 THE DIRECTORS AND THE AUDIT COMMITTEE 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 Companies Ordinance (Chapter 622 of the Laws of Hong Kong), 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.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional 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 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.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee of the Company 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 threat or safeguards applied.

From the matters communicated with the Audit Committee, 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.

Moore Stephens CPA Limited

Certified Public Accountants

Hung, Wan Fong Joanne

Practising Certificate Number: P05419

Hong Kong, 31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	7	**646,253**	624,540
Cost of sales		**(499,219)**	(480,158)
Gross profit		**147,034**	144,382
Other income	8	**2,278**	3,073
Selling and distribution expenses		**(45,963)**	(44,584)
Administrative expenses		**(48,709)**	(45,336)
(Provision for)/reversal of expected credit losses on financial assets		**(750)**	1,156
Finance costs	9	**(19,037)**	(2,516)
Profit before income tax	10	**34,853**	56,175
Income tax expense	11	**(10,173)**	(12,172)
Profit for the year		**24,680**	44,003
Profit for the year attributable to the owners of the Company		**24,680**	44,003
Other comprehensive income/(loss)			
Item that will not be reclassified subsequently to profit or loss:			
Currency translation differences		**2,940**	(1,452)
Other comprehensive income/(loss) for the year, net of tax		**2,940**	(1,452)
Total comprehensive income for the year attributable to the owners of the Company		**27,620**	42,551
Earnings per share	13		
Basic and diluted		**RMB0.022**	RMB0.040

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	431,785	455,736
Intangible assets	17	10,283	–
Prepayments for property, plant and equipment and intangible assets	20	63,769	7,088
Deferred tax assets	27	7,268	7,733
		513,105	470,557
Current assets			
Inventories	18	78,278	80,857
Trade and bills receivables	19	382,985	274,392
Deposits, prepayments and other receivables	20	100,105	90,028
Restricted cash	21	37,719	25,846
Cash and cash equivalents	22	69,389	65,404
		668,476	536,527
Current liabilities			
Trade and bills payables	23	170,518	101,256
Contract liabilities	24	19,421	5,626
Lease liabilities	28	1,482	1,059
Accruals and other payables	25	50,469	69,170
Current tax liabilities		4,463	3,694
Bank and other borrowings	26	234,323	173,200
		480,676	354,005
Net current assets		187,800	182,522
Total assets less current liabilities		700,905	653,079
Non-current liabilities			
Bank and other borrowings	26	104,358	86,300
Lease liabilities	28	658	354
Deferred tax liabilities	27	25,477	23,633
		130,493	110,287
NET ASSETS		570,412	542,792

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
EQUITY			
Share capital	29	**9,361**	9,361
Reserves	30	**561,051**	533,431
TOTAL EQUITY		**570,412**	542,792

The consolidated financial statements on pages 60 to 112 were approved by the Board of Directors on 31 March 2023 and were signed on its behalf by:

Wang Qiuping
Director

Zhao Xiaobao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2022

	Attributable to owners of the company							
	Share capital RMB'000	**Share premium*** RMB'000 (Note 30)	**Capital reserves*** RMB'000 (Note 30)	**Other reserves*** RMB'000 (Note 30)	**PRC statutory reserve*** RMB'000 (Note 30)	**Exchange reserve*** RMB'000 (Note 30)	**Retained earnings*** RMB'000	**Total** RMB'000
Balance at 1 January 2021	9,361	130,289	190	3,028	50,701	(7,849)	314,521	500,241
Profit for the year	–	–	–	–	–	–	44,003	44,003
Exchange differences arising on translation to presentation currency	–	–	–	–	–	(1,452)	–	(1,452)
Total profit and other comprehensive (loss)/income for the year	–	–	–	–	–	(1,452)	44,003	42,551
Appropriation to statutory reserves	–	–	–	–	6,371	–	(6,371)	–
Balance at 31 December 2021 and 1 January 2022	9,361	130,289	190	3,028	57,072	(9,301)	352,153	542,792
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**24,680**	**24,680**
Exchange differences arising on translation to presentation currency	**–**	**–**	**–**	**–**	**–**	**2,940**	**–**	**2,940**
Total profit and other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**2,940**	**24,680**	**27,620**
Appropriation to statutory reserves	**–**	**–**	**–**	**–**	**5,969**	**–**	**(5,969)**	**–**
Balance at 31 December 2022	**9,361**	**130,289**	**190**	**3,028**	**63,041**	**(6,361)**	**370,864**	**570,412**

* The total of these accounts as at the reporting dates represents "Reserves" in the consolidated statements of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Cash flows from operating activities		
Profit before income tax	34,853	56,175
Adjustments for:		
Depreciation of property, plant and equipment	33,856	22,788
Amortisation of intangible asset	1,038	–
Interest income	(451)	(778)
Finance costs	19,037	2,516
Provision for/(reversal of) expected credit losses on financial assets	750	(1,156)
(Reversal of)/write-down of inventories to net realisable value	(1,090)	2,433
Operating profit before working capital changes	87,993	81,978
Increase in trade and bills receivables	(109,343)	(24,654)
Increase in deposits, prepayments and other receivables	(10,077)	(21,058)
Decrease/(increase) in inventories	3,669	(16,562)
Increase in trade and bills payables	69,262	42,623
(Decrease)/increase in accruals and other payables	(24,181)	29,317
Increase/(decrease) in contract liabilities	13,795	(999)
Cash generated from operations	31,118	90,645
Income taxes paid	(7,095)	(8,039)
Net cash generated from operating activities	24,023	82,606
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,905)	(103,164)
Prepayments for property, plant and equipment and intangible assets	(60,077)	(3,638)
Interest received	451	778
Net cash used in investing activities	(69,531)	(106,024)
Cash flows from financing activities		
Proceeds from new bank and other borrowings	308,900	174,500
Repayments of bank and other borrowings	(229,719)	(127,432)
Restricted cash pledged	(37,719)	(25,846)
Restricted cash released	25,846	30,000
Interests paid	(19,037)	(2,516)
Payment of lease liabilities	(1,718)	(1,457)
Net cash generated from financing activities	46,553	47,249
Net increase in cash and cash equivalents	1,045	23,831
Cash and cash equivalents at the beginning of the year	65,404	43,025
Effect of exchange rate changes on cash and cash equivalents	2,940	(1,452)
Cash and cash equivalents at the end of the year	69,389	65,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Putian Communication Group Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands as an exempted company under the Companies laws. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 9 November 2017. The address of its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's headquarters and principal place of business is located at the People's Republic of China (the "**PRC**"). The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together referred to as the "**Group**") are production and sales of optical fibers and optical fiber cables, communication copper cables and structured cabling system products in the PRC.

The principal accounting policies and methods of computation used by the Group in the preparation of the consolidated financial statements for the year ended 31 December 2022 are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2021, except for the adoption of the amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") as explained in Note 2.1 below.

2. ADOPTION OF NEW AND AMENDED HKFRS

2.1 Adoption of amendments to HKFRSs

In the preparation of the consolidated financial statements for the year ended 31 December 2022, the Group has applied the following amendments to HKFRSs, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022:

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

In addition, the Group has adopted the Amendments to AG 5 (Revised) – Merger Accounting for Common Control Combination.

The application of the amendments to HKFRSs in the year has had no material impact on the Group's consolidated financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements. In addition, the Group has early applied the Amendment to HKFRS 16 *Covid-19-Related Rent Concessions beyond 30 June 2021* in the previous financial year.

2. ADOPTION OF NEW AND AMENDED HKFRS *(CONTINUED)*

2.2 New and amendments to HKFRSs not yet effective

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

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

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

[2] Effective for annual periods beginning on or after a date to be determined.

[3] Effective for annual periods beginning on or after 1 January 2024.

The Directors anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). 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.

3.2 Basis of measurement

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

3.3 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company and certain of its subsidiaries is Hong Kong dollars ("**HKD**"). As the major operations of the Group are within the PRC, the Group presents its consolidated financial statements in Renminbi ("**RMB**") and are rounded to the nearest thousand except where otherwise indicated.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries for the year. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:-

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without loss of control, is accounted for an equity transaction.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any investment retained; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, time deposits and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. Bank overdrafts repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalent for the purpose of the consolidated statement of cash flows.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.3 Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or for administrative purposes, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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

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

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

Land and buildings	5 – 20 years
Machinery	5 – 10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	3 – 5 years

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

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

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

4.4 Intangible assets and amortisation

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment loss.

Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses. Intangible assets are tested for impairment as described above in Note 4.12. Amortisation commences when intangible assets are available for use.

Amortisation of patent is amortised on the straight-line basis over 10 years.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.5 Leasing

The Group as a lessee

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

(i) Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of- use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

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

(ii) Lease liability

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.6 Financial Instruments

(i) Financial assets

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

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

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

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

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

Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.6 Financial Instruments *(Continued)*

(i) Financial assets (Continued)

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in OCI and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for ECL on trade and bills receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12-months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.6 Financial Instruments *(Continued)*

(iii) Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables as well as borrowings, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.6 Financial Instruments *(Continued)*

(iv) Effective interest method

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

(v) Equity instruments

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

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in Note 4.6(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

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

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

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

4.7 Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.8 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer, net of expected goods of returns, discounts and sales related taxes. Revenue is recognised when performance obligation is satisfied.

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

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Optical fibers and optical fiber cables, communication copper cables and structured cabling system products

Customers obtain control of the optical fibers and optical fiber cables, communication copper cables and structured cabling systems products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the optical fibers and optical fiber cables, communication copper cables and structured cabling systems products. There is generally only one performance obligation. Invoices are usually payable within 180 – 360 days.

Goods sold by the Group include warranties which require the Group to either replace or mend a defective product during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with HKFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Based on historical data, the provision for such costs of satisfying the outstanding warranty is not significant.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.8 Revenue recognition *(Continued)*

Contract liabilities

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

Contract costs

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

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

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

4.9 Income taxes

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

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches and associates and interests in joint arrangements 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.10 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

The functional currencies of the Company and certain subsidiaries are currencies other than the RMB. The assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of each reporting period, and their income and expense items are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of an operation with functional currency other than RMB, the component of other comprehensive income relating to that particular operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of non-PRC entities are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of non-PRC entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.11 Employee benefits

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Defined contribution retirement plan obligations

Pursuant to the relevant regulations of the PRC government, the Group participates in a central pension scheme (the "**Scheme**") operated by the local municipal government, whereby the subsidiary of the Company in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

The Group also operates a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees.

4.12 Impairment of assets (other than financial assets)

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

- property, plant and equipment and intangible assets under cost model;
- prepayment on property, plant and equipment and intangible assets; and
- investments in subsidiaries

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

4.13 Capitalisation of borrowing costs

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

4.14 Provisions and contingent liabilities

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

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

4.15 Research and developments costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

4.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

4.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in consolidated statement of comprehensive income within “Other income” over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors of the Company, who are the chief operating decision makers ("**CODM**"), for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the CODM are determined following the Group's major operations. The measurement policies the Group uses for reporting segment results under HKFRS 8 *Operating Segments* are the same as those used in its financial statements prepared under HKFRSs.

4.19 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

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

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Our key sources of estimation uncertainty are as follows:

(i) Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment in accordance with the accounting policies stated in Note 4.3. The estimated useful lives reflect the Directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets. The management reassesses the estimated useful lives at the end of each reporting period.

(ii) Impairment of trade, bills and other receivables

The impairment of trade, bills and other receivables are based on assumptions about risk of default and expected credit loss rates. The Group adopts judgement in making these assumptions and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at end of reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and impairment losses in the periods in which such estimate has been changed.

(iii) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on such available data as binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset of cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(iv) Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the CODM that are used to make strategic decisions.

Operating segments are managed separately as each business offers different returns and requires different business strategies.

The Group divides its cable products into three main categories: (a) Communication copper cables; (b) Optical fibers and optical fiber cables; and (c) Structured cabling system products:

(a) Communication copper cables

Communication copper cable is a general term for electric cables which are mainly made of copper as the main conductive body. These cables are used widely; it can be used in transmission and distribution of electric energy, which is normally used in cities' underground electric network, power station as an extraction line. Communication copper cable can also be found in the industrial and mining enterprises for internal power supply and over the river or sea of underwater transmission lines or used as the network cabling for residential and commercial buildings.

(b) Optical fibers and Optical fiber cables

Optical fiber refers to the technology that transmits information as light pulses along a glass or plastic fiber. A fiber optic cable can contain a varying number of these glass fibers from a few up to a couple hundred.

Optical fiber cable is a similar product as communication copper cable, but in an enhanced version. The optical fiber cables are used in telecommunications, network operators, ratio network and etc., with the better useful life, safety conditions, speed and stability of transmission compared to communication copper cables. The weight and size of optical fiber cables are comparably smaller than communication copper cables, therefore they are considered as the new trend as a replacement of communication copper cable. However, communication copper cables are still widely use in connecting the personal computer and other electronic devices, optical fiber cables have not yet 100% replaced communication copper cables.

(c) Structured cabling system products

The Group operates in the electric cable wires business, the demand of structured cabling system products is increasing every year in the PRC market. With more commercial buildings and residential units are built in modern style nowadays, the requirement of interior electronic applicable products has also boosted up and towards a more 'intelligent' way. As a result, the popularity and sales of the structured cabling system products increased, especially in developed cities, such as Beijing, Shanghai and etc.

6. SEGMENT REPORTING (CONTINUED)

The CODM reviews the Group's assets and liabilities as a whole without allocation to each segment. In the opinion of the CODM, all strategic business units consume similar materials and their products are produced by same machinery and equipment and then they are sold to same customers. As a result, it is not necessary to monitor the assets and liabilities under different segments. No segment information on assets and liabilities is presented accordingly.

(i) Business results

For the purposes of assessing segment performance and allocating resources between segments, the CODM monitors the results attributable to each reportable segment on the following basis:

Segment profit represents the profit earned by each segment without allocation of central administrative expenses (including emoluments of directors and senior management), selling and distribution expenses, other income and gains and finance costs. This is the measure reported to the Group's CODM for the purposes of resource allocation.

The following table set outs the breakdown of the revenue and segment profit by reportable segments:

	Optical fibers and Optical fiber cables RMB'000	Communication copper cables RMB'000	Structured cabling system products RMB'000	Total RMB'000
Year ended 31 December 2022				
Revenue from external customers and reportable segment revenue – Point in time	**201,531**	**296,803**	**147,919**	**646,253**
Reportable segment profit	**9,728**	**26,788**	**48,798**	**85,314**
Year ended 31 December 2021				
Revenue from external customers and reportable segment revenue – Point in time	117,235	353,122	154,183	624,540
Reportable segment profit	7,432	32,057	44,027	83,516

Reportable segment revenue is revenue from contracts with customers within the scope of HKFRS 15.

6. SEGMENT REPORTING (CONTINUED)

(ii) Reconciliation of reportable segment revenue and consolidated profit before income tax

Revenue and expenses are allocated to the reportable segments with reference to sales generated and the expenses incurred by those segments. The measurement of segment profit after income tax is the same as those used in preparing these consolidated financial statements under HKFRSs except that other income, finance costs, income tax expense and unallocated corporate administrative expenses not directly attributable to business activities of the operating segments are not included in arriving at the operating results of the operating segments.

	2022 RMB'000	2021 RMB'000
Segment results	85,314	83,516
Other income	2,278	3,073
(Provision for)/reversal of expected credit losses on financial assets	(750)	1,156
Unallocated expenses (Note)	(32,952)	(29,054)
Finance costs	(19,037)	(2,516)
Profit before income tax	34,853	56,175
Income tax expense	(10,173)	(12,172)
Profit after income tax	24,680	44,003

Note: Unallocated expenses represented administrative expenses (2021: Same).

No operating segments have been aggregated in arriving at the three reportable segments of the Group. There were no inter-segment sales during the year (2021: Nil).

6. SEGMENT REPORTING (CONTINUED)

(iii) Geographic information

The Company is an investment holding company. The principal place of the Group's operations is in the PRC, which is considered as the Group's country of domicile for the disclosure purpose of HKFRS 8. Substantial by all of the Group's non-current assets are located in the PRC as at 31 December 2022 and 2021.

The following table provides an analysis of the Group's revenue generated from external customers by geographical market.

	2022 RMB'000	2021 RMB'000
The PRC	645,323	624,540
Overseas	930	–
	646,253	624,540

(iv) Information about major customers

Revenue from major customers, each of them accounting for 10% or more of the Group's revenue during the year then ended, is set out below:

	2022 RMB'000	2021 RMB'000
Customer A (Note 1)	65,293	92,626
Customer B (Note 2)	94,386	136,477
Customer C (Notes 3 and 4)	91,107	38,197

Notes:

1 Revenue from optical fiber cables, communication copper cables and structure cabling system products

2 Revenue from communication copper cables and structure cabling system products

3 Revenue from optical fibers and optical fiber cables

4 Revenue from relevant customer was less than 10% of the Group's total revenue for the year ended 31 December 2021.

7. REVENUE

The principal activities of the Group are the production and sales of optical fibers and optical fiber cables, communication copper cables and structured cabling system products. Further details regarding the Group's principal activities and revenue recognised under HKFRS 15 are disclosed in Note 6.

	2022 RMB'000	2021 RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	646,253	624,540

8. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Bank interest income	451	778
Government grants (Note)	1,178	1,374
Others	649	921
	2,278	3,073

Note: There were no unfulfilled conditions and other contingencies attaching to government grants that had been recognised.

9. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interests and finance charges on bank and other borrowings	18,927	10,185
Interests on lease liabilities	110	70
Less: Amount capitalised (Note)	–	(7,739)
	19,037	2,516

Note: Borrowing costs capitalised for the year ended 31 December 2021 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 5.26% per annum to expenditure on qualifying assets.

10. PROFIT BEFORE INCOME TAX

The Group's profit before income tax is arrived at after charging/(crediting):

	2022 RMB'000	2021 RMB'000
Auditors' remuneration	**865**	1,180
Cost of inventories recognised as expenses (Note (i))	**499,219**	480,158
Transportation expenses (included in selling and distribution expenses)	**8,992**	13,761
Research expenditures (included in administrative expenses)	**15,757**	16,283
Depreciation of property, plant and equipment and right-of-use assets (Notes (ii) and Note 16)	**33,856**	22,788
Amortisation of intangible assets (included in cost of sales) (Note 17)	**1,038**	–
(Reversal of)/write-down of inventories	**(1,090)**	2,433
Provision for/(reversal of) expected credit losses on financial assets (Note 38(b))	**750**	(1,156)
Interests on lease liabilities (Note 28)	**110**	70
Short-term lease expenses (Note (iii))	**122**	1,562
Employee benefit expenses (including directors' emoluments – Note 14) (Note (iv)):		
– Salaries and wages, allowances and bonus	**54,857**	43,038
– Defined contribution schemes (Note (v))	**5,788**	5,294
	60,645	48,332

Notes:

(i) Amounts included materials consumption of approximately RMB441,829,000 (2021: RMB453,316,000).

(ii) Depreciation of property, plant and equipment and right-of-use assets of approximately RMB24,684,000 (2021: RMB16,209,000), RMB256,000 (2021: RMB350,000) and RMB8,916,000 (2021: RMB6,229,000) are included in cost of sales, selling and distribution expenses and administrative expenses, respectively.

(iii) These expenses relate to short-term leases. They are directly charged as expenses and are not included in the measurement of lease liabilities under HKFRS 16.

(iv) Employee benefit expenses (including directors' remuneration) of approximately RMB26,878,000 (2021: RMB22,439,000), RMB17,672,000 (2021: RMB16,962,000) and RMB16,095,000 (2021: RMB8,931,000) were included in selling and distribution expenses, administrative expenses and cost of sales, respectively.

(v) The Group participates in the Schemes, whereby subsidiaries of the Group in the PRC are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund their retirement benefits. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes. There are no provisions under the Schemes whereby forfeited contributions may be used to reduce future contributions.

11. INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Current tax – the PRC Enterprise Income Tax ("EIT")		
Charge for the year	7,864	9,932
Deferred tax (Note 27)		
Charge for the year	2,309	2,240
Income tax expense	10,173	12,172

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2021: Nil).

No provision for income tax in the Cayman Islands and the British Virgin Islands (the "**BVI**") has been made as the Company's subsidiaries had no assessable income in these jurisdictions during the year (2021: Nil).

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the Company's PRC subsidiaries is 25% (2021: 25%) except as described below. Provision for the EIT for the year then ended was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

Putian Cable Group Co., Ltd., one of the subsidiaries of the Company, was approved to be a high and new technology enterprise ("**HNTE**") and is entitled to a preferential income tax rate of 15% (2021: 15%) for the year according to the PRC tax law, as it was awarded high-technology status by tax authority with a validity period of three years expiring in 2025. The HNTE certificate needs to be renewed every three years so as to enable Putian Cable Group Co., Ltd. to enjoy the reduced tax rate and additional 100% (2021: 100%) tax deduction ("**Tax Deduction**") based on the eligible research and development expenses.

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

	2022 RMB'000	2021 RMB'000
Profit before income tax	34,853	56,175
Tax calculated at the applicable tax rate of 25% (2021: 25%)	8,713	14,044
Effect of different tax rates	(8,120)	(5,638)
Tax effect of expenses not deductible for tax purposes	360	799
Effect attributable to the Tax Deduction relating to research expenditures	(2,361)	(1,830)
Deferred tax on undistributed earnings of the PRC subsidiaries	1,844	2,513
Effect of tax losses not recognised	9,737	2,284
Income tax expense	10,173	12,172

12. DIVIDENDS

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

There are no income tax consequences related the payment of dividends by the Company to its shareholders (2021: Nil).

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB24,680,000 (2021: RMB44,003,000) and the weighted average of 1,100,000,000 shares (2021: 1,100,000,000 shares) in issue during the year, calculated as follows:

	2022 RMB	2021 RMB
Earnings per share		
Basic and diluted	0.022	0.040

There were no potential ordinary shares in issue during the years ended 31 December 2022 and 2021 and, therefore, diluted earnings per share are the same as the basic earnings per share.

14. DIRECTORS' EMOLUMENTS

Directors' emoluments are disclosed as follows:

		Other emoluments			
	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Defined contribution scheme RMB'000	Total RMB'000
For the year ended 31 December 2022					
Executive directors					
Wang Qiuping	702	436	145	–	1,283
Zhao Xiaobao	702	436	145	29	1,312
Zhao Moge	326	411	93	36	866
Independent non-executive directors					
Cheng Shing Yan	120	–	–	–	120
Liu Guodong	120	–	–	–	120
Xie Haidong	120	–	–	–	120
	2,090	1,283	383	65	3,821

14. DIRECTORS' EMOLUMENTS *(CONTINUED)*

		Other emoluments			
	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Discretionary bonus RMB'000	Defined contribution scheme RMB'000	Total RMB'000
For the year ended 31 December 2021					
Executive directors					
Wang Qiuping	702	438	242	–	1,382
Zhao Xiaobao	702	482	242	29	1,455
Zhao Moge	504	315	187	15	1,021
Independent non-executive directors					
Cheng Shing Yan	120	–	–	–	120
Liu Guodong	120	–	–	–	120
Xie Haidong	120	–	–	–	120
	2,268	1,235	671	44	4,218

Notes:

(i) Ms. Wang Qiuping is also the Chairlady and Chief Executive Officer of the Company.

(ii) The discretionary bonus was determined on a discretionary basis with reference to the individual's performance.

(iii) No directors received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2021: Nil). No directors waived or agreed to waive any emoluments during the year (2021: Nil).

15. THE FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest emoluments in the Group include three (2021: three) Directors whose emoluments are included in Note 14 above. The emoluments of the remaining two (2021: two) individuals were as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other emoluments	1,532	1,356
Discretionary bonuses	141	204
Defined contribution scheme	21	20
	1,694	1,580

The number of the highest paid non-directors fell within the following emolument band:

	2022 Number of individuals	2021 Number of individuals
Nil to HKD1,000,000	1	1
HKD1,000,001 to HKD1,500,000	1	1

During the year, no emoluments were paid by the Group to the above highest paid individuals as (i) an inducement to join or upon joining the Group or (ii) as compensation for loss of office (2021: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
COST						
At 1 January 2021	217,197	90,832	135,337	2,272	19,929	465,567
Additions	80,876	7,252	27,894	314	1,198	117,534
Transferred (from)/to	(194,390)	141,808	52,582	–	–	–
Disposals	–	(234)	–	–	–	(234)
At 31 December 2021 and 1 January 2022	**103,683**	**239,658**	**215,813**	**2,586**	**21,127**	**582,867**
Additions	**–**	**5,850**	**2,839**	**380**	**836**	**9,905**
Transferred (from)/to	**(102,023)**	**12,255**	**89,768**	**–**	**–**	**–**
Disposals	**–**	**(1,942)**	**–**	**–**	**–**	**(1,942)**
At 31 December 2022	**1,660**	**255,821**	**308,420**	**2,966**	**21,963**	**590,830**
ACCUMULATED DEPRECIATION						
At 1 January 2021	–	26,661	65,197	2,049	10,670	104,577
Depreciation	–	6,699	12,440	142	3,507	22,788
Disposals	–	(234)	–	–	–	(234)
At 31 December 2021 and 1 January 2022	**–**	**33,126**	**77,637**	**2,191**	**14,177**	**127,131**
Depreciation	**–**	**9,423**	**21,465**	**208**	**2,760**	**33,856**
Disposals	**–**	**(1,942)**	**–**	**–**	**–**	**(1,942)**
At 31 December 2022	**–**	**40,607**	**99,102**	**2,399**	**16,937**	**159,045**
NET BOOK VALUE						
At 31 December 2022	**1,660**	**215,214**	**209,318**	**567**	**5,026**	**431,785**
At 31 December 2021	103,683	206,532	138,176	395	6,950	455,736

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual values.

Buildings and structures which are held for own use are situated in the PRC. At 31 December 2022, land and buildings with carrying amounts of approximately RMB203,421,000 (2021: RMB186,813,000) were pledged as collateral for Group's bank and other borrowings (Note 26).

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Certain items of buildings with an aggregate net carrying amount of approximately RMB157,834,000 (2021: RMB142,135,000) as at 31 December 2022 are under title certificate application. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned properties and therefore the aforesaid matter does not affect the ownership rights of the Group over these assets and hence did not have any significant impact on the Group's consolidated financial position as at 31 December 2022.

The Group leases a number of properties for the purpose of office use in the PRC and Hong Kong and has the ownership interest in the prepaid land lease in the PRC. The Group's interests in these right-of-use assets, which are included in "Land and buildings" class of property, plant and equipment, is set out below:

Right-of-use assets

	Land and buildings RMB'000
At 1 January 2021	12,856
Addition	1,951
Depreciation	(2,253)
At 31 December 2021 and 1 January 2022	**12,554**
Addition	**2,409**
Depreciation	**(2,020)**
Exchange realignment	**34**
At 31 December 2022	**12,977**

	2022 **RMB'000**	2021 RMB'000
Ownership interests in prepaid land lease, carried at depreciation cost with remaining lease term of:		
Between 10 and 50 years	**10,833**	11,121
Other properties leased for own use, carried at depreciated cost	**2,144**	1,433
Carrying amount	**12,977**	12,554

17. INTANGIBLE ASSETS

	Patents RMB'000
COST	
At 1 January 2022	–
Additions	11,321
At 31 December 2022	11,321
ACCUMULATED AMORTISATION	
At 1 January 2022	–
Amortisation	(1,038)
At 31 December 2022	(1,038)
NET BOOK VALUE	
At 31 December 2022	10,283
At 31 December 2021	–

Patents have finite useful lives over which the assets are amortised. Amortisation of patents is amortised on the straight-line basis over 10 years.

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**38,198**	38,912
Finished goods	**40,080**	41,945
	78,278	80,857

Inventories are stated at the lower of cost and net realisable value.

19. TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**386,500**	279,783
Bills receivables (Note)	**4,047**	1,421
Trade and bills receivables, gross	**390,547**	281,204
Less: Loss allowance (Note 38(b))	**(7,562)**	(6,812)
Trade and bills receivables, net	**382,985**	274,392

Note: Bills receivables represented outstanding commercial acceptance bills.

Based on the invoice dates, the ageing analysis of the Group's net amount of trade and bills receivables is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 month	**94,514**	81,701
More than 1 month but within 2 months	**80,889**	76,889
More than 2 months but within 3 months	**39,488**	39,325
More than 3 months but within 6 months	**99,904**	57,458
More than 6 months but within 1 year	**55,079**	18,217
More than 1 year	**13,111**	802
	382,985	274,392

The Group recognised expected credit losses based on the accounting policy stated in Note 4.6(ii).

The credit term granted by the Group to its trade customers is normally ranged from 60 days to 365 days. Further details on the Group's credit policy are set out in Note 38(b).

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Current		
Deposits	33,697	34,362
Prepayments to suppliers	41,550	43,992
Prepayments	4,335	3,197
Valued added tax receivables	15,811	6,132
Other receivables	4,712	2,345
	100,105	90,028
Non-current		
Prepayments for property, plant and equipment and intangible assets (Note)	63,769	7,088

Note:

During the year, the Group made certain prepayments to certain independent third parties for purchases of equipment of an optical fiber production line (2021: for purchases of equipment and patents for an optical fiber production line). As at 31 December 2022, the relevant capital commitment for the new phase of production line is disclosed in Note 35.

21. RESTRICTED CASH

Bank deposits have been pledged as security for bills payables (Note 23) and bank borrowings (Note 26). The restricted cash will be released upon the settlement of relevant bills payables and bank borrowings.

Restricted cash carry interests at prevailing market rate ranging from 0.25% to 2.00% per annum.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balance with banks. RMB is not freely convertible to other currencies as such amounts were held by the subsidiaries located in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies only through banks that are authorised to conduct foreign exchange business.

Bank balances carry interests at prevailing market rate ranging from 0.00% to 0.25% per annum.

23. TRADE AND BILLS PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	**83,579**	59,399
Bills payables	**86,939**	41,857
	170,518	101,256

The credit terms of trade payables vary according to the terms agreed with different suppliers, normally range from 30 days to 90 days, and bills payables maturity periods are normally range from 180 days to 360 days. Based on the receipt of services and goods, which normally coincided with the invoice dates, the ageing analysis of the Group's trade and bills payables as at the end of each reporting period is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 month	**60,218**	33,622
More than 1 month but within 2 months	**14,543**	19,684
More than 2 months but within 3 months	**42,026**	4,912
More than 3 months but within 6 months	**30,031**	20,598
More than 6 months but within 1 year	**21,817**	21,011
More than 1 year	**1,883**	1,429
	170,518	101,256

The trade and bills payables are short-term in nature and hence the carrying values of the Group's trade and bills payables are considered to be a reasonable approximation of fair value.

The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

At 31 December 2022, bills payables of approximately RMB61,837,000 (2021: RMB41,857,000) were secured by pledged bank deposits (Note 26).

24. CONTRACT LIABILITIES

Contract liabilities represent billings in advance of performance in regarding the sales of optical fibers and optical fiber cables, communication copper cables and structured cabling system products.

When the Group receives a deposit before the products are delivered to the customers, this will give rise to contract liabilities at the start of a contract, until revenue recognised exceeds the amount of the deposit. The Group generally receives deposits on acceptance of orders for most customers, except for the major customers. In previous years, the amount of the deposit, if any, was negotiated on a case by case basis with the customers.

The following table shows the opening and closing balances of contract liabilities for each reporting period and how much of the revenue recognised during each reporting period relates to carried-forward contract liabilities:

	2022 RMB'000	2021 RMB'000
Balance as at 1 January	5,626	6,625
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(5,626)	(6,625)
Increase in contract liabilities as a result of billing in advance of sales of goods	19,421	5,626
Balance at 31 December	19,421	5,626

25. ACCRUALS AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Accruals	4,566	37,084
Accrued salaries and allowances	4,532	4,818
Payables for acquisitions of property, plant and equipment	23,297	12,886
Other payables (Note)	18,074	14,382
	50,469	69,170

Note:

As at 31 December 2022, balances of approximately RMB10,022,000 (2021: RMB7,432,000) included in other payables, represented other tax payables and surcharges.

26. BANK AND OTHER BORROWINGS

	2022 RMB'000	2021 RMB'000
Bank borrowings – Secured (Notes (i), (ii) and (iv)):		
Secured by the property, plant and equipment of the Group	**64,400**	30,000
Secured by the properties owned by the controlling shareholders and their associates	**20,000**	38,000
Secured jointly by the property, plant and equipment of the Group and the controlling shareholders	**111,000**	96,000
Secured by personal guarantee (Note (iii))	**70,000**	12,000
Secured by personal bank balances of the controlling shareholder	**9,500**	9,500
Bank borrowings – Unsecured (Note (iv))	**–**	9,000
	274,900	194,500
Other borrowings – Secured (Notes (i) and (iv)):		
Secured by the Group's property, plant and equipment (Note (ii))	**30,781**	32,000
Secured by the Company's certain shareholding in its two PRC subsidiaries	**33,000**	33,000
	63,781	65,000
	338,681	259,500
Less: amount classified as non-current liabilities	**(104,358)**	(86,300)
Current liabilities	**234,323**	173,200
Borrowings fall due:		
– Within one year	**234,323**	173,200
– Between one and two years	**63,066**	26,700
– Between two to five years	**15,984**	59,600
– Over five years	**25,308**	–
Total bank and other borrowings	**338,681**	259,500

26. BANK AND OTHER BORROWINGS *(CONTINUED)*

Notes:

(i) Bank borrowings of approximately RMB101,400,000 (2021: RMB61,000,000), bearing variable interests at the bank's loan prime rate plus a premium. The effective interest rates of these borrowings are 5.00% to 5.65% (2021: 5.20% to 5.70%) per annum as at 31 December 2022.

Bank borrowings of approximately RMB173,500,000 (2021: RMB133,500,000), bearing interest at fixed rates, ranging from 4.22% to 5.66% (2021: 4.35% to 5.66%) per annum as at 31 December 2022.

Other borrowings bear interests at fixed rates, ranging from 0.00% to 8.41% (2021: 0.00% to 6.10%) per annum as at 31 December 2022. The weighted average effective interest rate on these borrowings is 5.56% (2021: 4.7%) per annum as at 31 December 2022.

(ii) The bank and other borrowings are secured by the assets of the Group, the carrying amounts of these assets are set out as follows:

	2022 RMB'000	2021 RMB'000
Property, plant and equipment (Note 16)		
– Land and buildings	203,421	186,813
– Machinery	67,472	51,441
Bank deposits (Note 21)	37,719	25,846
	308,612	264,100

(iii) As at 31 December 2022 and 2021, guarantees were provided by the controlling shareholders and the family members of the controlling shareholders for the bank and other borrowings.

(iv) A summary of facilities granted by banks and other borrowers and the amounts utilised by the Group at 31 December 2022 and 2021 is set out as follows:

	2022 RMB'000	2021 RMB'000
Amounts granted	402,281	259,500
Amounts utilised	338,681	259,500

27. DEFERRED TAX ASSETS/(LIABILITIES)

Details of the deferred tax assets/(liabilities) recognised and movements during the year are as follows:

Deferred tax assets:

	Allowance for doubtful debts RMB'000	Write down of inventories RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2021	611	–	5,274	5,885
Charged for the year (Note 11)	31	242	1,575	1,848
At 31 December 2021 and 1 January 2022	**642**	**242**	**6,849**	**7,733**
Credited for the year (Note 11)	**(350)**	**(115)**	**–**	**(465)**
At 31 December 2022	**292**	**127**	**6,849**	**7,268**

Deferred tax liabilities:

	Withholding tax on undistributed earnings RMB'000	Capitalised costs RMB'000	Total RMB'000
At 1 January 2021	(14,271)	(5,274)	(19,545)
Charged for the year (Note 11)	(2,513)	(1,575)	(4,088)
At 31 December 2021 and 1 January 2022	**(16,784)**	**(6,849)**	**(23,633)**
Charged for the year (Note 11)	**(1,844)**	**–**	**(1,844)**
At 31 December 2022	**(18,628)**	**(6,849)**	**(25,477)**

As at 31 December 2022, the Group had unused tax losses of approximately HKD384,000 (equivalent to approximately RMB332,000) (2021: Nil) available to offset against future profit sourced in Hong Kong. Such unused tax losses are subject to the approval of the Hong Kong Inland Revenue Department and can be carried forward indefinitely.

As at 31 December 2022, the Group had unused tax losses of approximately RMB70,688,000 (2021: RMB31,962,000), available to offset against future profits sourced in the PRC. No other deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams (2021: Nil). The unused tax losses will be expired in five years from the year in which the losses were incurred.

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement was effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

28. LEASES

Nature of leasing activities (in the capacity as lessee)

The carrying amount of the corresponding lease liabilities and the movements during the year are as follows:

	Land and buildings RMB'000
At 1 January 2021	1,423
Commencement of new lease	1,447
Interest expense	70
Lease payments	(1,527)
At 31 December 2021 and 1 January 2022	**1,413**
Commencement of new lease	**2,409**
Interest expense	**110**
Lease payments	**(1,828)**
Exchange realignment	**36**
At 31 December 2022	**2,140**

The weighted average incremental borrowing rates applied to lease liabilities ranged from 5.05% to 5.65% (2021: 5.66%) per annum.

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	31 December 2022		31 December 2021	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**1,482**	**1,555**	1,059	1,111
After 1 year but within 2 years	**658**	**670**	354	364
	2,140	**2,225**	1,413	1,475
Less: total future interest expenses		**(85)**		(62)
Present value of lease liabilities		**2,140**		1,413
Less: amount classified as non-current liabilities		**(658)**		(354)
Current liabilities		**1,482**		1,059

29. SHARE CAPITAL

	2022		2021	
	Number '000	Amount RMB'000	Number '000	Amount RMB'000
Authorised:				
At 1 January and 31 December	**3,000,000**	**25,534**	3,000,000	25,534
Issued and fully paid:				
At 1 January and 31 December	**1,100,000**	**9,361**	1,100,000	9,361

At 31 December 2022, the authorised share capital of the Company comprises 3,000,000,000 ordinary shares with par value of HKD0.01 per share (2021: same).

30. RESERVES

Share premium

Share premium is the excess of the proceeds received over the par value of the shares of the Company issued at a premium, less the amount of expenses incurred in connection with the issue of the shares.

Capital reserves

Capital reserves represented the excess net assets of RMB30,000 from Putian Cable (as defined in Note 33), which was the capital surplus raised from the capital injection of United States dollars ("**USD**")185,000, on 2 November 2001. Also, the excess net assets of RMB160,000 from Jiangxi Optical (as defined in Note 33), which transferred from the PRC statutory reserves when Jiangxi Optical transformed from Limited Company to Stock Corporation as at the date of transformation, 30 September 2013.

Other reserves

The amount arose from the acquisition of equity interest in the Putian Cable by Jiangxi Tianyuan (as defined in Note 33) during the group reorganisation.

PRC statutory reserve

In accordance with the relevant laws and regulations of the PRC, the PRC subsidiary is required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or to increase capital.

Exchange reserve

Translation reserve comprises the exchange differences arising on the translation to presentation currency.

31. RELATED PARTY TRANSACTIONS

The key management personnel are the Directors and the five highest paid individuals of the Company. The details of the emoluments paid to them are set out in Notes 14 and 15 respectively.

Except as disclosed above, no other transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year (2021: Nil).

32. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENTS OF THE COMPANY

	Notes	2022 RMB'000	2021 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		70	66
Amounts due from subsidiaries	(i)	15,544	14,323
		15,614	14,389
Current assets			
Amounts due from a subsidiary	(i)	74,734	75,462
Other receivables		160	146
Cash and cash equivalents		63	58
		74,957	75,666
Current liabilities			
Amounts due to a subsidiary	(i)	70	64
Accruals and other payables		1,302	2,205
		1,372	2,269
Net current assets		73,585	73,397
Net assets		89,199	87,786
CAPITAL AND RESERVES			
Share capital		9,361	9,361
Reserves	(ii)	79,838	78,425
Total equity		89,199	87,786

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 31 March 2023 and signed on its behalf by:

Wang Qiuping	**Zhao Xiaobao**
Director	*Director*

32. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENTS OF THE COMPANY *(CONTINUED)*

Notes:

(i) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

(ii) Movements in reserves

	Share premium RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2021	130,289	278	(41,176)	89,391
Loss for the year	–	–	(7,927)	(7,927)
Exchange differences arising on translation to presentation currency	–	(3,039)	–	(3,039)
Balance at 31 December 2021 and 1 January 2022	**130,289**	**(2,761)**	**(49,103)**	**78,425**
Loss for the year	**–**	**–**	**(6,649)**	**(6,649)**
Exchange differences arising on translation to presentation currency	**–**	**8,062**	**–**	**8,062**
Balance at 31 December 2022	**130,289**	**5,301**	**(55,752)**	**79,838**

33. INTEREST IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of subsidiary#	Form of business structure	Place of incorporation/ registration	Place of operation and principal activity	Issued and fully paid share capital/ registered capital	Percentage of ownership interests/ voting rights/ profit share
Interests held directly					
Putian Group Investment Co., Ltd. ("**Putian Investment**") (普天集團投資有限公司)	Corporation	The BVI	Investment holding in Hong Kong	Ordinary shares USD10,000	100 (2021: 100)
Interests held indirectly					
Putian Communication Group (HK) Limited ("**Putian HK**") 普天通信集團(香港)有限公司	Corporation	Hong Kong	Investment holding in Hong Kong	Ordinary shares USD10,000	100 (2021: 100)
Jiangxi Tianyuan Intelligent Technology Co., Ltd ("**Jiangxi Tianyuan**") (江西天源智能科技有限公司)*	Corporation	The PRC	Investment holding in the PRC	RMB25,000,000	100 (2021: 100)

33. INTEREST IN SUBSIDIARIES *(CONTINUED)*

Name of subsidiary#	Form of business structure	Place of incorporation/ registration	Place of operation and principal activity	Issued and fully paid share capital/ registered capital	Percentage of ownership interests/ voting rights/ profit share
<u>Interests held directly</u> (Continued)					
Putian Cable Group Co., Ltd (“**Putian Cable**”) (普天線纜集團有限公司) ^	Corporation	The PRC	Production and sales of communication copper cables and optical fiber cables in the PRC	RMB201,000,000	100 (2021: 100)
Jiangxi Changtian Optical Communication Co., Ltd (“**Jiangxi Optical**”) (江西長天光電通信有限公司) ^	Corporation	The PRC	Sales of optical fibers and optical fiber cables in the PRC	RMB86,000,000	100 (2021: 100)
Putian Cable Group Communication Technology Co., Ltd. (“**Putian Technology**”) (普天線纜集團通信科技有限公司)^	Corporation	The PRC	Sales of structured cabling system products in the PRC	RMB50,000,000	100 (2021: 100)
Putian Cable Group (Shanghai) Building Intelligence Co., Ltd (“**Putian Cable (Shanghai)**”) (普天線纜集團(上海)樓宇智能有限公司)^	Corporation	The PRC	Sales of structured cabling system products in the PRC	RMB30,000,000	100 (2021: 100)
Jiangxi Putian Scrap Metal Recycle Co., Ltd (“**Jiangxi Recycle**”) (江西普天廢舊金屬回收有限公司)^	Corporation	The PRC	Dormant company in the PRC	RMB6,000,000	100 (2021: 100)
Jiangxi Changxun Plastic Technology Co., Ltd (“**Jiangxi Changxun**”) (江西長訊塑膠科技有限公司)^	Corporation	The PRC	Dormant company in the PRC	RMB20,000,000	100 (2021: 100)
Jiangxi Putian Intelligent Technology Collaborative Innovation Co., Ltd (“**Jiangxi Intelligent**”) (江西普天智能科技協同創新有限公司)^	Corporation	The PRC	Dormant company in the PRC	RMB80,000,000	100 (2021: 100)
Jiangxi Yibao Electronic Technology Co., Ltd. (“**Jiangxi Yibao**”) (江西翼寶電子科技有限公司)^	Corporation	The PRC	Dormant company in the PRC	RMB10,000,000	100 (2021: 100)

The English names of all subsidiaries established in the PRC are translated for identification purpose only.

* These entities are established in the PRC in the form of wholly foreign-owned enterprise.

^ The entity is established in the PRC in the form of domestic limited liability company.

None of the subsidiaries had issued any debt securities at the end of the year (2021: Nil).

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in Group's liabilities arising from financing activities.

	Borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2021	212,432	1,423
Change from financing activities:		
– Proceeds from new bank and other borrowings	174,500	–
– Repayments of bank and other borrowings	(127,432)	–
– Interest paid	(2,446)	(70)
– Lease payments	–	(1,457)
Other changes:		
– Commencement of new lease	–	1,447
– Capitalised borrowing costs	(7,739)	–
– Interest expenses	10,185	70
At 31 December 2021 and 1 January 2022	**259,500**	**1,413**
Change from financing activities:		
– Proceeds from new bank and other borrowings	**308,900**	**–**
– Repayments of bank and other borrowings	**(229,719)**	**–**
– Interest paid	**(18,927)**	**(110)**
– Lease payments	**–**	**(1,718)**
Other changes:		
– Commencement of new lease	**–**	**2,409**
– Interest expenses	**18,927**	**110**
– Exchange realignment	**–**	**36**
At 31 December 2022	**338,681**	**2,140**

35. CAPITAL COMMITMENTS

	2022 RMB'000	2021 RMB'000
Capital expenditure of the Group contracted for but not yet paid for or provided in the consolidated financial statements in respect of:		
– Acquisition of property, plant and equipment	**39,916**	8,400

36. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group manages its capital to ensure that the 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 capital structure of the Group consists of net debt, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings, respectively.

The Directors review the capital structure on a continuous basis taking into account the loss of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy-back as well as the issue of new debts or redemption of existing debt, if necessary.

	2022 RMB'000	2021 RMB'000
Trade and bills payables	170,518	101,256
Accruals and other payables	50,469	69,170
Lease liabilities	2,140	1,413
Bank and other borrowings	338,681	259,500
Less: Cash and cash equivalents	(69,389)	(65,404)
Net debt	492,419	365,935
Equity	570,412	542,792
Capital and net debt	1,062,831	908,727
Gearing ratio	46.3%	40.3%

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	2022 RMB'000	2021 RMB'000
Financial assets		
Amortised cost:		
Trade, bills and other receivables	421,394	311,099
Restricted cash	37,719	25,846
Cash and cash equivalents	69,389	65,404
	528,502	402,349
Financial liabilities		
Amortised costs:		
Trade, bills and other payables	210,965	162,994
Bank and other borrowings	338,681	259,500
Lease liabilities	2,140	1,413
	551,786	423,907

38. FINANCIAL RISK MANAGEMENT

Details of these financial instruments are disclosed in respective notes to the consolidated financial statements. The risks associated with these financial instruments include market risk (i.e. interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank and other borrowings. The Group does not have an interest rate hedging policy. However, the Directors monitors interest rate exposure from time to time and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates quoted by the People's Bank of China arising from the Group's bank borrowings.

The Group's interest rate risk mainly arises from bank and other borrowings. Bank and other borrowings arranged at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively. Certain bank and other borrowings of the Group as at 31 December 2022 bore interest at floating rates (2021: same). The interest rates and repayment terms of bank and other borrowings at the end of each reporting period are disclosed in Note 26.

The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on its floating rate bank borrowings with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	2022 **RMB'000**	2021 RMB'000
Change in profit after tax and retained earnings:		
+/-100 basis points	**-/+761**	-/+142

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that the bank borrowing period of the loans outstanding at the end of the reporting period resembles that of the corresponding financial year.

38. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit risk

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and deposits, restricted cash and cash and cash equivalents. In order to minimise the credit risk of other receivables, the management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables is considered to be low. It is not the Group's policy to request collateral from its other debtors.

The management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low and, thus, ECL recognised is based on 12-month ECL and the impact of ECL is insignificant for the years ended 31 December 2022 and 2021.

The credit risks on bank and restricted cash balances are considered to be insignificant because the counterparties are financial institutions with good reputation and high credit ratings assigned by international credit-rating agencies.

Trade receivables

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

In order to minimise the credit risk, the Directors have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. In addition, the Directors review the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the credit risk of the Group is significantly reduced.

The credit risk of the Group is concentrated on trade and bills receivables from the Group's two largest customers at 31 December 2022, which amounted to approximately RMB147,334,000 (2021: RMB112,712,000), and accounted for approximately 38.1% (2021: 40.1%) of the Group's gross trade and bills receivables. In order to minimise the credit risk, the Directors continuously monitor the level of exposure by frequent review of the public financial information and credit quality of its customers to ensure that prompt actions will be taken to lower the exposure. The two largest customers of the Group are listed companies in the PRC and Hong Kong, and both of them have good past credit repayment history and records with the Group.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

The Group applies the simplified and general approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade and bills receivables and 12-month expected credit losses for other receivables, unless there is significant increase in credit risk since initial recognition.

38. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit risk *(Continued)*

The Group measures expected credit losses for trade and bills receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. In measuring the expected credit losses, the trade and bills receivables have been assessed on a collective basis and debtors ageing is applied to assess expected credit losses for its customers because these customers consist of a large number of customers which share common risk characteristics that are representative of the customers' ability to pay all amounts due in accordance with the contractual terms. They have been grouped based on the days past due. The estimated ECL loss rates are estimated based on the Group's estimates of the market borrowing rates for each of the groupings, less risk-free rate, which reflect the credit risk of the debtors, over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

As at the reporting date, the loss allowance provision for trade and bills receivables was determined as follows. The expected credit losses below also incorporated forward looking information.

Trade and bills receivables	Current (not past due)	1–30 days past due	31–60 days past due	61–90 days past due	91–365 days past due	More than one year past due	Total
At 31 December 2022							
Expected credit loss rate	**0.73%**	**0.52%**	**2.79%**	**3.49%**	**17.06%**	**100%**	
Gross carrying amount (RMB'000)	**349,997**	**5,959**	**15,532**	**6,385**	**10,086**	**2,588**	**390,547**
Loss allowance (RMB'000)	**2,565**	**31**	**434**	**223**	**1,721**	**2,588**	**7,562**
At 31 December 2021							
Expected credit loss rate	1.4%	–	13.9%	64.4%	100%	100%	
Gross carrying amount (RMB'000)	278,096	–	251	271	833	1,753	281,204
Loss allowance (RMB'000)	4,017	–	35	174	833	1,753	6,812

Movement of the loss allowance provision for trade and bills receivables is as follows:

	RMB'000
At 1 January 2021	7,968
Loss allowance reversed in profit or loss	(1,156)
At 31 December 2021 and 1 January 2022	**6,812**
Loss allowance recognised in profit or loss	**750**
At 31 December 2022	**7,562**

38. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within one year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
At 31 December 2022						
Trade, bills and other payables and accruals	**210,965**	**210,965**	**210,965**	**–**	**–**	**–**
Bank and other borrowings	**338,681**	**361,387**	**242,846**	**68,802**	**21,115**	**28,624**
Lease liabilities	**2,140**	**2,225**	**1,555**	**670**	**–**	**–**
	551,786	**574,577**	**455,366**	**69,472**	**21,115**	**28,624**
At 31 December 2021						
Trade, bills and other payables and accruals	162,994	162,994	162,994	–	–	–
Bank and other borrowings	259,500	274,189	182,045	31,725	60,419	–
Lease liabilities	1,413	1,475	1,111	364	–	–
	423,907	438,658	346,150	32,089	60,419	–

39. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2021, additions of property, plant and equipment of approximately RMB14,370,000 were prepaid in prior years and the amounts were transferred from prepayments for acquisition of property, plant and equipment.

(ii) During the year, out of the total additions of intangible assets of approximately RMB11,321,000 (Note 17), approximately RMB3,396,000 (2021: Nil) were prepaid in prior year and the amounts were transferred from prepayments for acquisition of intangible assets. The remaining portion of approximately RMB7,925,000 has been recognised as other payables in the consolidated statement of financial position as at 31 December 2022.

40. LITIGATIONS

During the year, there were litigation claims initiated by the Group against various customers of the Group to demand immediate repayment of overdue trading debts in relation to sales of optical fiber cables, communication copper cables and structured cabling system products with an aggregate outstanding amounts (inclusive of interests and late penalty charges) of approximately RMB19,531,000. Up to the date when the consolidated financial statements were authorised for issue, 11 litigations are still in progress and approximately RMB2,860,000 have been received by the Group. The remaining litigation cases have been concluded/arbitrated/enforced to execute the repayments. As a result of the foregoing, the Group further recognised the expected credit losses on trade receivables from these customers of approximately RMB2,408,000 in the consolidated financial statement for the year ended 31 December 2022.

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 March 2023.