Vital Innovations Holdings Limited
維太創科控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)
Stock code 股份代號：6133

ANNUAL REPORT **2021** 年度報告

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Rong Xiuli *(Chairperson)*
Rong Shengli *(Chief Executive Officer)*
Yin Xuquan *(President)*
Wong Ho Chun

Independent Non-executive Directors

Han Xiaojing
Wong Pong Chun James
Leung Man Fai

COMPANY SECRETARY

Chui Man Lung, Everett

AUDIT COMMITTEE

Leung Man Fai *(Chairman)*
Han Xiaojing
Wong Pong Chun James

REMUNERATION COMMITTEE

Han Xiaojing *(Chairman)*
Rong Xiuli
Wong Pong Chun James

NOMINATION COMMITTEE

Rong Xiuli *(Chairman)*
Han Xiaojing
Wong Pong Chun James

RISK MANAGEMENT COMMITTEE

Wong Ho Chun *(Chairman)*
Rong Xiuli
Rong Shengli

AUTHORISED REPRESENTATIVES

Rong Xiuli
Chui Man Lung, Everett

AUDITOR

Confucius International CPA Limited
Certified Public Accountants
Rooms 1501-8, 15/F.,
Tai Yau Building,
181 Johnston Road,
Wanchai,
Hong Kong

PRINCIPAL BANKERS

Shanghai Commercial Bank
China Everbright Bank

LEGAL ADVISERS

As to Hong Kong Law
Sidley Austin

As to PRC Law
HeNan BoYin Law Firm

As to Cayman Islands Law
Conyers Dill & Pearman

REGISTERED OFFICE

Cricket Square,
Hutchins Drive
PO Box 2681
Grand Cayman,
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND OPERATING HEAD OFFICE IN CHINA

Zone B, 7th Floor,
No. 55 Jiachuang Second Road
OTPO-Merchatronics Industrial Park
Zhongguancun Science Park
Tongzhou District, Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1506, 15/F.,
Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

6133

COMPANY'S WEBSITE

www.vitalinno.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Vital Innovations Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is primarily engaged in the provision of products and services including mobile phones, smartphones and related business which encompassed research and development, design, engineering, material sourcing, supply chain management, logistic, and the services activities to the target markets. The Group's main business is to service its diverse number of wholesalers and resellers by using its extensive understanding of telecommunication technology, a large network of technological and service provider partners.

In 2021, the main business of the Group was adversely affected by two factors. One is the unfavourable Sino-American relationships in various aspects and the other is the continue outbreak of COVID-19 variants. The international business environment was under tremendous pressure. Worldwide smartphone shipments declined year on year in the fourth quarter of 2021 marking the second straight quarter of negative growth, despite 2021 worldwide smartphone recorded a growth of a 5.7% with 1.35 billion units smartphones shipped (according to the International Data Corporation(IDC)). Smartphone sales rebounded in the first half of 2021, following a 12.5% decline in 2020 because of COVID-19. However, component shortages and supply chain disruptions affected smartphones sales in the second half of 2021. As a result, low stock availability are expected to continue to disrupt global smartphone sales. In addition, the increasing demand of Integrated Circuits ("IC") for electric cars manufacturing will affect the production capacity of smartphone, and this is expected to continue as we entered 2022. We expect supply and logistical challenges continue to exist in the first half of 2022, but shipments will return to growth in the second quarter and second half of 2022. There is no question that demand is still strong in many markets, and to some extent we are seeing increasing consumer interest in 5G and new form factors like foldables handsets.

In 2021, China still managed to deliver a stunning positive growth during one of the most challenging times in history. The outbreak of COVID-19 since 2020 continuous by challenging the management in finding the proper position to develop in such VUCA world, a world of Volatility, Uncertainty, Complexity and Ambiguity. The management adopted a defensive strategy to control operating expenses to survive in such tough time while trying to achieve its strategic goal by seeking new opportunities to grow our sales. The repositioning target set by the management has been met. During 2021, the pursuit to strike a balance between optimal business model and organizational structure continued. By constant hard work of the management and staff, the Group successfully maintained the operation in this extreme environment and strove hard to maintain its customer base through innovation and efficiency. The management continued to adjust the margin policy to upkeep sales volume and achieved a sales revenue of Mobile and smart appliances of approximately RMB651 million, representing 84.2% of the sale on 2020 in such a tough year. The Group also continues to tightly control operating expenses to minimise losses. The absence of the one-time loss from the artificial intelligence("AI") equipment trading business, our operating losses has been reduced from approximately RMB97.6 million in 2020 to approximately RMB20.6 million in 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK

We believe, in 2022, the effects of COVID-19 pandemic will gradually ease off and business will be gradually back to normal. However, we will not be overly optimistic since we have witnessed waves after waves of new variations of the COVID-19 spread all over the globe. We need to be prepared and adopt a new model to conduct business in a world which we might never be the same as Pre-pandemic. In addition the current military conflict in Eastern Europe also have a long term adverse effect to the world economy. The prevalence of geopolitical tension in various parts of the world may also affect the worldwide economic and political balance.

All planning has to be able to adopt changing world. The management will capture opportunities during this turbulent to the time with firm belief that China will continue its reform and grow with quality. China, in a very foreseeable future, will become the biggest economy in the world. By successfully fighting the COVID-19 pandemic, we have every confidence in China's future business environment.

The increasing demand for wireless handheld devices across the globe is one of the key factors driving the growth of the market. Smartphones offer enhanced convenience, security, various calling features, and an easy access to the internet. In line with this, the shifting consumer preference toward smart devices that offer easy accessibility, advanced features, web surfing, endless apps, and instant online ordering is favouring the market growth. Moreover, various product innovations, such as the introduction of miniaturized cameras with high-resolution sensors, improved battery life and reliability, loads of new foldable phones and dependable flagships are providing an impetus to the market growth. Additionally, the increasing product demand among consumers to make contactless payments is positively impacting the market growth. Smartphones eliminate the need for card swiping and manual entry and aids in reducing human errors, facilitating a smoother checkout experience. Other factors, such as the growing working population, increasing internet penetration, and the rising expenditure capacities of consumers, are creating a positive outlook for the market. The global smartphones market reached a volume of 1,355 million units in 2021. Looking forward, IMARC Group expects the market to reach 1,715 million units by 2027, exhibiting at a Compound Annual Growth Rate ("CAGR") of 3.7% per year during 2022-2027.

The Group remains optimistic for 2022 due to the expectation of ease off of COVID-19 pandemic controls all over the world. An improved consumer outlook, pent up demand from 2022 in large markets, such as China and India. International trade and production activities would resume normal in a large extent. The Group is working with the above trend in mind and believes smartphones manufacturers will seek to form more attractive features, their own and new brand matrix in 2022 to please users especially 5G products and related The Artificial Intelligence of Things ("AIoT").

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Group will introduce more Chinese brands smartphones and AIoT including low end products to new customers and focus on the new markets such as Middle Asia, East Asia, South Asia, Middle East and Africa, for sales expansion. The Group believes that it can work well with this strategy as the Group has the infrastructure to support the growth. The sales volume for 2022 is anticipated to be increased significantly.

Thus, by looking at the China market, the management has decided to look for opportunities for the domestic trade in China. And that is the foundation for all the strategies for the Group in the coming years. The business direction will go along with the strategic direction of China. The management will look for opportunities for acquisition of the necessary resources and competitiveness and talents to formulate a business plan targeting the domestic trade in China. Recently we have signed a memorandum of understanding (the "MOU") of possible acquisition of a Chinese company who owned a first class, license to distribute a top and famous brand smartphone in the China market and we subject to satisfactory due diligence, anticipate to complete the acquisition in the middle of the year and our total sales volume will be substantially increased accordingly.

The Group also likes to explore for chances to invest in technological advancement projects related to 5G and AI, which is within the expertise and experience of the management team, to enhance the competitiveness and diversification for the Group to bring in financial and commercial values. The management team consists of IT professionals with more than 20 years of experiences and long-term reputation in the China market. This could easily be transformed into the competitive advantages that are long lasting and insight for judgement in different technological advancement projects.

It is expected that the year of 2022 would be an important year for growth of the China market and development of the Group for the bright future.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB208.5 million or 23.7% to approximately RMB672.7 million for the year ended 31 December 2021 from approximately RMB881.1 million for the year ended 31 December 2020. The following table sets forth the breakdown of the Group's revenue by product type: -

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Mobile and smart appliances	**651,059**	773,421
AI and other equipment	**21,592**	107,716
	672,651	881,137

The revenue of mobile and smart appliances decreased mainly due to the relatively less active market and strong price competition.

Segment (loss) profit and profit margin

	For the year ended 31 December			
	2021		2020	
	RMB'000	**%**	RMB'000	%
Mobile and smart appliances	**(3,275)**	**–**	668	0.09
AI and other equipment	**(2,368)**	**–**	(85,783)	–

The mobile and smart appliances recognized loss for the year ended 31 December 2021 was mainly attributable to the adverse price competition.

The loss of AI and other equipment was significantly decreased for the year ended 31 December 2021 due to the absence of an one time loss suffered from a sales transaction during the initial outbreak of worldwide COVID-19 pandemic in 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other income

Other income mainly represented interest income on bank balance and other services income. The Group's other income increased from RMB148,000 for the year ended 31 December 2020 to RMB686,000 for the year ended 31 December 2021. The increase was mainly due to the consultancy services income.

Taxation

No provision for Hong Kong Profits Tax and Enterprise Income Tax was made as the Group did not have any assessable profits generated for the years ended 31 December 2021 and 2020.

Trade and other receivables

As at 31 December 2021, the carrying amount of trade and other receivables were approximately RMB16,115,000, mainly comprise of notes receivable and a refundable deposit for a potential acquisition, representing an increase of approximately RMB9,909,000 as compared to the corresponding period in 2020.

Prepayments

As at 31 December 2021, the prepayments were approximately RMB573,678,000 which was decreased by RMB45,091,000 as compared with 2020. All prepayments are related to mobile and smart appliances.

Inventories

The Group's total inventories decreased by RMB9,299,000 from RMB27,100,000 as at 31 December 2020 to RMB17,801,000 as at 31 December 2021 due to the absence of AI and other equipment (i.e. surgical mask equipment). In determining the write down of inventories, the Company's management considered the subsequent selling price less the estimated cost necessary to make the sale.

Trade payable

The Group's trade payable decreased by RMB19,233,000 from RMB29,931,000 as at 31 December 2020 to RMB10,698,000 as at 31 December 2021 due to less purchases of AI and other equipment.

Bank loans

The Group's bank loan decreased by RMB8,116,000 from RMB20,395,000 as at 31 December 2020 to RMB12,279,000 as at 31 December 2021 due to less invoice financing for mobile and smart appliances.

Contract liabilities

The Group's contract liabilities decreased by RMB27,147,000 from RMB43,674,000 as at 31 December 2020 to RMB16,527,000 as at 31 December 2021 due to less prepayment from customers for purchases of mobile and smart appliances.

Liquidity and source of funding

As at 31 December 2021, the Group's total cash and bank balances decreased by approximately RMB27,717,000 from approximately RMB54,369,000 to approximately RMB26,652,000.

As at 31 December 2021, the Group had unutilised bank facilities related to bank loans of RMB6.85 million. These credit facilities could be drawn down by the Group to finance its operation. Based on the working experience and the communication with the bank, the Board believes that the Group has the ability to renew or secure banking facilities upon maturity.

As at 31 December 2021, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 6.6 compared with 4.8 as at 31 December 2020.

As at 31 December 2021, the Group had bank loans of approximately RMB12,279,000 (2020: approximately RMB20,395,000). On the same date the gearing ratio (calculated based on the bank loans as of the respective dates divided by the net asset as of the respective dates) of the Group was 2.27% as compared with 3.63% as at 31 December 2020.

Foreign exchange exposure

The Group undertakes certain operating transactions in foreign currencies and the bank balances of the proceeds from the global offering denominated in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

Future plans for material investment or capital assets

With reference to the announcements of the Company dated 16 December 2021 and 16 March 2022, the Company, as potential purchaser, entered into the MOU with a potential vendor in relation to a possible acquisition of equity interest in a target company. The target company is a company incorporated in the PRC with limited liability and is principally engaged in mobile phones trading business. The target company is also a top international smart phones brand's authorised distributor in the PRC.

The Group is principally engaged in the development, design, production management and sales of mobile, sales of mobile related components and accessories and provision of technical knowhow and other add-on service related to mobile. In order to expand the market share of its existing business, the Group has been exploring viable investment opportunities from time to time. The directors of the Company (the "Directors") consider that it is in the interests of the Company and its shareholders as a whole to enter into the MOU as the possible acquisition can broaden the Group's source of revenue to ensure sustainable growth.

Saved as disclosed in this report, the Directors confirmed that as at the date of this report, there are no current plans to acquire any material investment or capital assets other than in the Group's ordinary business development.

Material acquisitions and disposals

Saved as disclosed in this report, the Group has no material acquisitions and disposals of subsidiaries, associates and joint ventures for the year ended 31 December 2021.

Significant investments

Saved as disclosed in this report, the Company had no significant investment held during the year ended 31 December 2021.

Contingent liabilities and commitments

At the end of the year 2021, the Group did not have any significant contingent liabilities and commitments.

Dividends

No dividend was paid, declared or proposed during the year ended 31 December 2021, nor had any dividend been proposed for the year ended 31 December 2021 (2020: Nil).

Employees and remuneration policy

As at 31 December 2021, the Group had approximately 30 employees. The Group provides competitive remuneration packages to employees with the share option scheme.

The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

Charges on assets

As at 31 December 2021, the Group had no charge of assets (2020: Nil).

Ms. Rong Xiuli

Executive Director and Chairperson

Ms. Rong Xiuli ("Ms. Rong"), aged 58, is the chairperson and executive Director of the Company, a member of the remuneration committee and risk management committee and chairperson of the nomination committee of the Company. Ms. Rong joined the Group in July 2004. Ms. Rong is the founder of the Group and is currently the chairperson of the Group. She gained experience and network in the mobile handset distribution business in the mid-1990s. She worked for 北京市百利豐通訊器材有限責任公司 (Beijing City Bailifeng Communication Apparatus Co., Ltd.) which engaged in the sale and agency service of mobile phones and became the chairperson of this company until 2005. Ms. Rong also cofounded 北京天宇朗通通信設備股份有限公司 (Beijing Tianyu Communication Equipment Co. Ltd.) ("Tianyu") with Mr. Ni Gang (spouse of Ms. Rong) in 2002. She was responsible for sales and marketing, research and development, strategic planning and general management of Tianyu from 2002 to 2008. Ms. Rong was also a director of 北京百納威爾科技有限公司 (Beijing Benywave Technology Co., Ltd.) ("Benywave Technology") since its establishment in 2004 and the chairperson of Benywave Technology from 2008 to 2014. Ms. Rong has ample experience in sales and marketing, distribution, research and development, risk management, personnel and general management. Ms. Rong has approximately 27 years of experience in mobile handset industry. Ms. Rong has extensive knowledge on telecommunications operations and control and deep understanding of the dynamic of telecommunications market in China. Ms. Rong graduated from Hunan University (湖南大學) with a degree in mechanical engineering specialized in internal combustion engine in 1983. Ms. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) (previously known as China-Europe Management Institute (中歐國際管理中心)) in 1993. Ms. Rong is an elder sister of Mr. Rong Shengli, chief executive officer and executive Director of the Company.

As of 31 December 2021, Ms. Rong was interested in certain shares of the Company. Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" in this report for further details.

Mr. Rong Shengli

Executive Director and Chief Executive Officer

Mr. Rong Shengli ("Mr. Rong"), aged 51, is the chief executive officer, executive Director and a member of the risk management committee of the Company and is responsible for the management and strategic development of the Group. Mr. Rong joined the Group in October 2008. Mr. Rong joined 北京百納威爾科技有限公司 (Beijing Benywave Technology Co., Ltd.) ("Benywave Technology") in 2008 and was the vice chairman of Benywave Technology from October 2008 to July 2014, where he was responsible for the sales and the strategic planning for its business of development, designing, production management and selling of mobile telecommunication devices on ODM basis and its related components and accessories, targeting global markets excluding the People's Republic of China ("PRC"). Prior to joining Benywave Technology, Mr. Rong served as marketing manager, regional director and general manager of operational business department of Tianyu and its subsidiaries from 2000 to 2008. Mr. Rong did not have any role in Tianyu since 2008. Mr. Rong has approximately 22 years of experience in telecommunications industry and management. Mr. Rong obtained a bachelor's degree from Harbin Engineering University (哈爾濱工程大學) (previously known as Harbin Shipbuilding Engineering Institute (哈爾濱船舶工程學院)) specialized in radio communications in 1992. Mr. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) in 1997. Mr. Rong is a brother of Ms. Rong Xiuli, chairperson and executive Director of the Company.

As of 31 December 2021, Mr. Rong was interested in certain shares of the Company. Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" in this report for further details.

Mr. Yin Xuquan

Executive Director and President

Mr. Yin Xuquan ("Mr. Yin") aged 57, is an executive Director and president of the Company. Mr. Yin joined the Group in February 2018. Mr. Yin has over 19 years of experience in the telecommunication equipment industry in the People's Republic of China and held various managerial positions in 中國郵電器材集團公司 (China National Postal and Telecommunications Appliances Corporation) during the period from February 2002 to January 2018, where he had accumulated extensive experience in corporate management. Mr. Yin graduated from Heilongjiang University (黑龍江大學) with a bachelor's degree in finance and tax in July 2006, and received an executive master degree of business administration (EMBA) from South China University of Technology (華南理工大學) in July 2011.

Mr. Wong Ho Chun

Executive Director

Mr. Wong Ho Chun ("Mr. Wong"), aged 35, is an executive Director and chairman of risk management committee of the Company. Mr. Wong Joined the Group in February 2019. Mr. Wong has over 9 years of experience in the asset management, fund management and financial services industries in Hong Kong. Mr. Wong was a managing partner of China Fund Group Limited, a boutique fund house in Hong Kong, during the period from 2016 to 2018; a fund manager of Pacific Sun Advisors Limited during the period from 2014 to 2016; and assumed various managerial positions in a few big banks in Hong Kong responsible for providing investment and financial services solutions to clients during the period from 2011 to 2014. Mr. Wong obtained a master degree in Arts with a major in politics from the Durham University in 2011; and a bachelor degree of Business Administration from the City University of Hong Kong in 2006. Mr. Wong is also a Chartered Financial Analyst ("CFA") charter holder.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Han Xiaojing

Independent non-Executive Director

Mr. Han Xiaojing ("Mr. Han"), aged 67, is an Independent non-Executive Director, chairman of remuneration committee, and a member of audit committee and nomination committee of the Company. Mr. Han joined the Group in June 2019. Mr. Han is the founding partner of Commerce & Finance Law Offices (北京市通商律師事務所) and has been an attorney there since May 1992. Mr. Han has also been an independent non-executive director at Sino-Ocean Group Holding Limited (遠洋集團控股有限公司), a real estate company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 3377), Far East Horizon Limited (遠東宏信有限公司), a company listed on the Stock Exchange (stock code: 3360) and Angelalign Technology Inc. (時代天使科技有限公司), a company listed on the Stock Exchange (stock code: 6699), since June 2007, March 2011 and May 2021, respectively. He has also served as a supervisor at Ping An Bank Company Limited (平安銀行股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000001), since October 2020 and served as one of its independent directors from February 2014 to October 2020. Prior to that, he served as an independent director of Beijing Sanju Environmental Protection & New Materials Company Limited (北京三聚環保新材料股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300072), from April 2014 to September 2020, and as an outside director of China National Aviation Fuel Group Limited (中國航空油料集團有限公司), a Chinese state-owned enterprise in 2016 Fortune Global 500 list, since December 2017.

Mr. Han graduated from Hubei Finance College (湖北財經學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) with a bachelor's degree in law in July 1982. He further obtained a master's degree in law from China University of Political Science and Law (中國政法大學) in July 1985.

Mr. Wong Pong Chun James

Independent non-Executive Director

Mr. Wong Pong Chun James, ("Mr. James Wong"), aged 62, is an Independent non-Executive Director, and a member of audit committee, remuneration committee and nomination committee of the Company. Mr. James Wong joined the Group in December 2020. Mr. James Wong has over 30 years of management experience in production and sales of electronic products. Mr. James Wong has been an executive director of Truly International Holdings Limited ("Truly Int"), a company listed on the Main Board of the Stock Exchange (stock code: 732), since July 1991. He is also the chief operating officer of Truly Int. On 16 October 2021, Mr. James Wong has been appointed as a Trustee of HKSAR Morrison Scholarships Fund Trust Committee.

Mr. Leung Man Fai

Independent non-Executive Director

Mr. Leung Man Fai, ("Mr. Leung"), aged 64, is an Independent non-Executive Director and chairman of audit committee of the Company. He joined the Group in December 2020. Mr. Leung has over 30 years of working experience in accounting, corporate finance and corporate management. Mr. Leung graduated from Manchester Polytechnic, the United Kingdom with a degree of Bachelor of Arts in Accounting and Finance awarded by the Council for National Academic Awards of the United Kingdom in July 1988. He also obtained a degree of Master of Commerce in Accounting from the University of New South Wales in May 1990. Mr. Leung was a company secretary of Creative Enterprise Holdings Limited (stock code: 3992) from May 2018 to September 2021, which has been delisted from the Stock Exchange from October 2021. Mr. Leung has been an independent non-executive Director of China Regenerative Medicine International Limited (stock code: 8158), a company listed on the GEM Board of the Stock Exchange since 30 December 2021 and a company secretary of MediNet Group Limited (stock code: 8161), a company listed on the GEM Board of the Stock Exchange since November 2015. Mr. Leung has been a member of the HKICPA since June 1991.

SENIOR MANAGEMENT

Mr. Lam Man Kit

Chief Financial Officer

Mr. Lam Man Kit ("Mr. Lam"), aged 65, has over 43 years of experience in financial management, accounting and corporate finance. Mr. Lam joined the Group in June 2016. Since 1980's Mr. Lam has been serving local and international companies in senior positions such as chief financial officer, consultant, financial controller, regional controller, cost accounting manager and other positions. Prior to joining the Company, Mr. Lam was the chief financial officer of the group of Draper Athena from July 2015 to May 2016, where he was responsible for financial functions for the fund and management companies located in People's Republic of China, the United States of America, Korea and Hong Kong. Before that, he was the chief financial officer of Coolsand Technologies Limited from 2009 to 2015; a consultant of Yeton Venture Limited from 2008 to 2009; the executive director and chief financial officer of Wanji Group Limited from 2001 to 2007; the financial controller of Whirlpool Home Appliance Co. Ltd. from 1995 to 2001; the regional controller of Amphenol East Asia Limited from 1986 to 1995; and he also worked for Fairchild Semiconductor (HK) Ltd. from 1978 to 1986 first as accountant and subsequently as cost accounting manager. Mr. Lam obtained a diploma in accounting and business management from Hong Kong Baptist University in 1978.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of the Company presents their report and the audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2021.

PRINCIPAL PLACES OF BUSINESS

The Company was incorporated in the Cayman Islands. The principal place of business of the Company is in Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 36 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group including an analysis using financial key performance indicators during the year ended 31 December 2021 and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the section headed "Management Discussion and Analysis" set out on pages 4 to 10 of this annual report.

The financial risk management objectives and policies of the Group are shown in note 31 to the consolidated financial statements.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. The Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. Further details of the Group's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company for the year ended 31 December 2021 to be published in due course. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year under review, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIP WITH STAKEHOLDERS

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

The Company provides a fair and safe workplace, promotes diversity to its 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. The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfies the needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner. The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss on page 57 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

During the year ended 31 December 2021 and up to the date of this annual report, there was no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 142 of this annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements of the share capital of the Company during the year ended 31 December 2021 are set out in note 27 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 9 June 2015 as an incentive to the Group's employees and business associates (the "Scheme"). Subject to the provisions for early termination of the Scheme, the Scheme shall be valid for a period of ten years from that date. The following is a summary of the principal terms of the Scheme:

a) **Purpose of the Scheme**

The purpose of the Scheme is to provide incentives or rewards to the participants for their contribution to the Group.

b) **Participants of the Scheme**

Pursuant to the Scheme, the Board may at its absolute discretion grant options to any eligible employee, non-executive Director, supplier of goods or services, customer, person or entity that provides research, development or other technological support, shareholder or holder of any securities issued by the Group or any invested entity.

c) **Total number of shares available for issue under the Scheme**

The total number of shares of the Company available for issue under the scheme is 85,000,000 shares, representing 10% of the total number of share of the Company in issue as at the date of this annual report.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue from time to time.

d) **Maximum entitlement of each participant**

The total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including those exercised, outstanding and cancelled options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner as stipulated in the Scheme.

e) Time of exercise of options

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each option grantee, which period may commence on the day on which the option offer is made but shall end in any event not later than 10 years from the offer date subject to the provisions for early termination thereof. Unless the Directors otherwise determined and stated in the option offer to a participant of the Scheme, no minimum period for which the option granted under the Scheme must be held before it can be exercised.

f) Subscription price per share

The subscription price per share of the Company in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the making of the option offer but in any case, the subscription price shall not be lower than the highest of:

i. the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the option offer date, which must be a trading day;

ii. the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the offer date; and

iii. the nominal value of a share of the Company.

g) Payment on acceptance of option

A non-refundable sum of HK$1.00 by way of consideration for the grant of an option is required to be paid by each of the grantee upon acceptance of the option.

h) Remaining life of the Scheme

Subject to the provisions for early termination of the Scheme, the Scheme will remain in force for a period of 10 years commencing on 9 June 2015 up to 8 June 2025 (both days inclusive).

As at the date of this report, no option had been granted by the Company pursuant to the Scheme.

RESTRICTED SHARE UNIT SCHEME

The Company has adopted a restricted share unit ("RSU") scheme (the "RSU Scheme") on 9 June 2015. Details of the RSU Scheme are set out in the section headed "Statutory and General Information – D. RSU Scheme" in Appendix IV to the prospectus of the Company dated 16 June 2015. On 2 November 2016, the Company granted 32,300,000 RSUs to certain grantees pursuant to the RSU Scheme and all the RSUs granted had been unlocked up to the year ended 31 December 2018. Details of the above grant of RSUs are set out in the announcement of the Company dated 2 November 2016.

DISTRIBUTABLE RESERVES

At 31 December 2021, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately RMB541.7 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2021, the Group's top five largest customers accounted for 97.23% (2020: 91.37%) of our revenues and the single largest customer accounted for 84.46% (2020: 79.78%) of our revenues. The Group's top five suppliers accounted for 92.21% (2020: 93.83%) of our cost of revenue and the single largest supplier accounted for 43.80% (2020: 47.04%) of our cost of revenue.

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers during the year ended 31 December 2021.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "related parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis.

Further details are set out in note 30 to the consolidated financial statements. During the year ended 31 December 2021, none of the related party transactions of the Company fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or is exempted from the disclosure requirements under Chapter 14A of the Listing Rules and the Company has complied with all the disclosure requirements under Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKING

Each of Ms. Rong Xiuli, Mr. Ni Gang, Winmate Limited, Benywave Technology and Tianyu (collectively the "Covenantors"), has entered into a deed of non-competition and undertaking dated 9 June 2015 (the "Deed of Non-Competition") in favor of the Company (for itself and on behalf of its subsidiaries from time to time), pursuant to which each of the Covenantors irrevocably and unconditionally undertakes to and covenants with the Company that each of them will not and procure that none of their respective associates and subsidiary (for a Covenantor which is a company) other than any member of the Group shall:

i. whether as principal or agent and whether undertaken directly or indirectly in his/her/its/their own account or in conjunction with or on behalf of or through any person, firm, body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, carry on, participate in, acquire, or hold (whether as a shareholder, partner, agent or otherwise) any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which competes or may compete with the business of developing, designing, production management and selling of mobile telecommunication devices on original design manufacturer ("ODM") basis and its related components and accessories, targeting global markets excluding the PRC (the "Overseas Business") in any part of the world including but not limited to undertaking the manufacture of mobile telecommunication devices on ODM basis;

ii. sell or distribute or cause or allow the sale or distribution of the own-branded mobile telecommunication devices of Benywave Technology and Tianyu and their subsidiaries or any of them (collectively the "Excluded Group") to any territory outside the PRC and, in connection therewith, the Covenantors shall procure that in all distribution agreements between any member of Excluded Group and its distributors a clause restricting the sale or distribution of such own-branded mobile telecommunication devices outside PRC shall be incorporated; and

iii. alone or jointly with or on behalf of any person,

a) induce or attempt to induce any director, employee or consultant of the Group to terminate his/her/its employment or consultancy (as appropriate) with the Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy with the Group (as appropriate);

b) canvass or solicit or attempt to canvass or solicit any order for business which competes or may compete with the Overseas Business; and

c) persuade any person who has dealt with the Group or who is in the process of negotiating with the Group in relation to the Overseas Business to cease to deal with the Group, or reduce the amount of business which that person would normally do with the Group or seek to improve their terms of trade with any member of the Group.

Details of the Deed of Non-Competition are set out in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company dated 16 June 2015.

The Company confirms that each of the Covenantors have complied with the Deed of Non-Competition for the year ended 31 December 2021. In order to ensure the Covenantors have complied with the Deed of Non-Competition, the following actions have been taken:

i. the Company has required each of the Covenantors to give written confirmation to the Company on an annual basis as to whether he/she/it has complied with the Deed of Non-Competition for the year ended 31 December 2021;

ii. each of the Covenantors has provided to the Company such written confirmation (a) in respect of his/her/its compliance with the Deed of Non-Competition for the year ended 31 December 2021; and (b) stating that he/she/it has not been offered or becomes aware of any investment or commercial opportunity directly or indirectly relating to the Overseas Business in any part of the world including but not limited to supply of mobile telecommunications devices on ODM basis in the PRC; and

iii. the independent non-executive Directors have reviewed the written confirmation made by each of the Covenantors in compliance with the undertakings in the Deed of Non-Competition and have also reviewed the status of the compliance by each of the Covenantors with the undertakings in the Deed of Non-Competition and have confirmed that, as far as they can ascertain, there is no breach by any of the Covenantors of the undertakings in the Deed of Non-Competition given by them.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the annual report, there was no contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholders or any of their subsidiaries subsisted during or at the end of the year ended 31 December 2021, and there was no contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company or any of their subsidiaries subsisted during or at the end of the year ended 31 December 2021.

DIRECTORS

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

Executive Directors

Ms. Rong Xiuli *(Chairperson)*
Mr. Rong Shengli *(Chief executive officer)*
Mr. Yin Xuquan *(President)*
Mr. Wong Ho Chun

Independent Non-executive Directors

Mr. Han Xiaojing
Mr. Wong Pong Chun James
Mr. Leung Man Fai

Pursuant to Article 83(3) of the Company's Articles of Association, any director appointed by the Board to fill a casual vacancy on the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 84(1) of the Company's Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three(3), the number nearest to but not less than one-third) shall retire from office by rotation and every Director shall be subject to retirement at an annual general meeting at least once every three years. Ms. Rong Xiuli, Mr. Rong Shengli and Mr. Han Xiaojing retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 11 to 15 of this annual report.

CONFIRMATION OF INDEPENDENCE

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 to be independent.

DIRECTORS' SERVICE CONTRACTS

No Director has entered into any service agreement with any members of the Group which is not expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director, other officer and auditor for the time being of the Company shall be entitled to be indemnified out of assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditors or other officer of the Company about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2021 and up to the date of this annual report.

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 under review.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the annual report, no Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisted during or at the end of the year ended 31 December 2021.

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

At 31 December 2021, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions

Ordinary shares of HK$0.1 each of the Company (the "Shares")

(i) Interest in the Company

Name of Director	Nature of interest	Number of Shares [1]	Approximate percentage of issued share capital of the Company [3]
Rong Xiuli ("Ms. Rong") [2]	Interest in a controlled corporation	480,624,000 (L)	56.54%
	Personal interest	87,856,000 (L)	10.34%
Rong Shengli	Personal interest	3,720,000 (L)	0.44%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ms. Rong and Mr. Ni Gang ("Mr. Ni") hold 90% and 10% of the entire issued share capital of Winmate Limited ("Winmate") respectively. Ms. Rong is the spouse of Mr. Ni, and therefore, Ms. Rong is deemed to be interested in the Shares held by Winmate.

(3) As at 31 December 2021, the issued share capital is 850,000,000 Shares.

(ii) Interest in associated corporation of the Company

Name of Director	Name of associated corporation	Percentage of interest in associated corporation
Ms. Rong (Note)	Winmate Limited	90%

Note: As at 31 December 2021, Winmate held more than 50% of the Shares. Therefore, the Company was a subsidiary of Winmate, and Winmate was the holding company and an associated corporation of the Company.

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Share Option Scheme" and "Restricted Share Unit Scheme" above, at no time during the year ended 31 December 2021 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any subsisting arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2021, as far as known to the Directors, the following persons or entities (not being a Director or a chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions

Ordinary shares of HK$0.1 each of the Company

Name of Shareholder	Nature of interest	Number of Shares [(1)]	Approximate percentage of issued share capital of the Company [(4)]
Winmate	Beneficial owner	480,624,000 (L)	56.54%
Mr. Ni [(2)]	Spouse of Ms. Rong	568,480,000 (L)	66.88%
Yardley Finance Limited	Person having a security interest in shares	533,480,000 (L)	62.76%
Mr. Chan Kin Sun [(3)]	Interest in a controlled corporation	533,480,000 (L)	62.76%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ms. Rong and Mr. Ni hold 90% and 10% of the entire issued share capital of Winmate respectively. Ms. Rong is the spouse of Mr. Ni, and therefore, Ms. Rong and Mr. Ni are deemed to be interested in the Shares held by Winmate.

(3) Yardley Finance Limited ("Yardley") is owned as to 100% by Mr. Chan Kin Sun. Therefore, Mr. Chan Kin Sun is deemed to be interested in the Shares held by Yardley.

(4) As at 31 December 2021, the issued share capital is 850,000,000 Shares.

Save as disclosed above, as at 31 December 2021, the Company has not been notified by any person (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPETING INTERESTS

As at 31 December 2021, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Directors are not aware of any tax relief from taxation to which the shareholders of the Company are entitled by reason of their holding of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2021 and as at the date of this annual report.

EMOLUMENT POLICY

As at 31 December 2021, the Group had a total of 30 employees (2020: 29) The emolument package of the Directors and senior management of the Group is reviewed and recommended by the remuneration committee of the Company (the "Remuneration Committee") on the basis of their merit, qualifications and competence.

The Company has adopted a share option scheme and restricted share unit scheme to the eligible persons as incentives or rewards for their contribution to the Group.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme adopted by the Company on 9 June 2015 as disclosed under the section headed "Share Option Scheme" above, the Company has not entered into any equity-linked agreements during the year ended 31 December 2021.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the group as at 31 December 2021 are set out in note 24 to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group during the year ended 31 December 2021 are set out in note 11 and note 12 to the consolidated financial statements.

RETIREMENT SCHEME

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employee in the PRC, and operates a Mandatory Provident Fund scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 29 to the consolidated financial statements.

No forfeited contribution under these schemes is available to reduce the contribution payable in future years.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Details of the corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" on pages 32 to 49 of this annual report.

EVENT AFTER REPORTING PERIOD

There is no significant event subsequent to 31 December 2021.

CHARITABLE DONATIONS

The Group did not make any charitable donations in the year 2021. (2020: Nil)

CHANGES IN INFORMATION OF DIRECTORS

The changes in Director's information required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

1. Mr. Leung has been an independent non-executive Director of China Regenerative Medicine International Limited (stock code: 8158), a company listed on the GEM Board of the Stock Exchange since 30 December 2021;

2. On 16 October 2021, Mr. James Wong has been appointed as a Trustee of HKSAR Morrison Scholarships Fund Trust Committee.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with the Listing Rules. The current Audit Committee, comprises of Mr. Leung Man Fai (chairman), Mr. Han Xiaojing and Mr. Wong Pong Chun James, all of whom are independent non-executive Directors.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and half-yearly reports and to provide advices and comments thereon to the Board.

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2021, including the accounting principles and practices adopted by the Group.

AUDITOR

The financial statements for the year ended 31 December 2021 have been audited by Confucius International CPA Limited. SHINEWING (HK) CPA Limited* resigned as auditor of the Company with effect from 29 December 2021, for details of which, please refer to the announcement of the Company dated 29 December 2021. Confucius International CPA Limited was appointed as auditor of the Company with effect from 29 December 2021 to fill the casual vacancy and to hold office until the conclusion of the next annual general meeting of the Company.

* SHINEWING (HK) CPA Limited was appointed as auditor of the Company with effect from 29 January 2021 upon the resignation of BDO Limited.

On behalf of the Board

Rong Xiuli
Chairperson

Hong Kong, 31 March 2022

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a solid, transparent and sensible framework of corporate governance for the Company and its subsidiaries and will continue to review its effectiveness.

The Company has adopted the code provisions ("Code Provisions") as stated in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 to the Listing Rules as the corporate governance code of the Company. The Board is committed to complying with the Code Provisions as stated in the CG Code to the extent that the Directors of the Company consider it is applicable and practical to the Company.

During the year under review, the Company has complied with the Code Provisions in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2021.

BOARD OF DIRECTORS

At the date of this report, the Board comprises four executive Directors and three independent non-executive Directors. The Directors were:

Executive Directors
Ms. Rong Xiuli *(Chairperson)*
Mr. Rong Shengli *(Chief executive officer)*
Mr. Yin Xuquan *(President)*
Mr. Wong Ho Chun

Independent Non-executive Directors
Mr. Han Xiaojing
Mr. Wong Pong Chun James
Mr. Leung Man Fai

The Board possesses a balanced mix of skills and expertise which supports the continuing development of the Company. The executive Directors have accumulated sufficient and valuable experience to hold their positions in order to ensure that their fiduciary duties have been carried out in an efficient and effective manner. The Board is responsible for setting the Group's strategic direction and overseeing the business performance of the Group while business operations are delegated to qualified management under the supervision of the executive Directors. The Board also monitors the financial performance and the internal controls of the Group's business operations. The senior management is responsible for the day-to-day operations of the Group.

Biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" on pages 11 to 15 of this annual report. To the best knowledge of the Company, there is no other financial, business, family or other material/ relevant relationship among the Directors.

Chairperson and Chief Executive Officer

According to the then Code Provision A.2.1 of the CG Code, the roles of the chairperson of the Company (the "Chairperson"), Ms. Rong Xiuli and the chief executive officer of the Company (the "CEO"), Mr. Rong Shengli are segregated in order to reinforce their independence and accountability.

There are clear demarcations of responsibility and authority between the Chairperson and the CEO which ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. Ms. Rong Xiuli is mainly responsible for providing guidance and supervision regarding the business and operations of the Company while Mr. Rong Shengli is responsible for the overall management of the Company's business operations.

Board Diversity

The Company has recognised the importance of board diversity to corporate governance and the board effectiveness in terms of examination and evaluation of corporate issues from different perspectives.

Pursuant to the Board Diversity Policy ("Diversity Policy"), the effective implementation of the Diversity Policy requires that shareholders of the Company are able to judge for themselves whether the Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support.

The Board will also take into account the below aspects: –

- articulate the benefits of diversity, including gender diversity, and the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent;

- to diversify at all levels, including gender, age, cultural and educational background, or professional experience;

- assess annually on the diversity profile including gender balance of the directors and senior management and its progress in achieving its diversity objectives;

- ensure that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered; and

- has identified and implemented programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, in time, their skills will prepare them for senior management and board positions.

Having reviewed the Diversity Policy and the Board's composition, the nomination committee of the Company (the "Nomination Committee") considered that the requirements set out in the Diversity Policy had been met.

Nomination Policy

The Group adopted a nomination policy (the "Nomination Policy") in December 2018. A summary of this policy is disclosed as below.

1. *Objective*

   The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors of the Company at general meetings or appoint as Directors to fill casual vacancies or as an addition to the existing Board.

2. *Selection Criteria*

   The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.

   - Reputation for integrity
   - Accomplishment and experience
   - Compliance with legal and regulatory requirements
   - Commitment in respect of available time and relevant interest
   - Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

3. *Nomination Procedures*

   The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

   For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders") to allow Shareholders to share the Company's profits and for the Company to retain adequate reserves for future growth.

General power to declare dividends

Subject to the Cayman Companies Law, the Company may from time to time in general meeting declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board.

Board's power to pay interim dividends

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the profits of the Company, and, in particular (but without prejudice to the generality of the foregoing), if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend.

The Board may also pay half-yearly or at other intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the profits available for distribution justify the payment.

Board's power to declare and pay special dividends

The Board may in addition from time to time declare and pay special dividends on shares of any class of such amounts and on such dates as they think fit.

Dividends to be paid out of profits or reserves

No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company.

The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

Scrip dividends

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the Shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment. In case of the Board elects to pay the dividend in shares, the Company shall abide by the provisions of the articles of association of the Company on scrip dividends.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

Independent Non-executive Directors

Independent Non-executive Directors are responsible to scrutinise the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the Board authority is within the powers conferred to the Board under the Company's articles of association, applicable laws, rules and regulations.

During the year ended 31 December 2021, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Confirmation of Independence

The Board considers that all of the independent non-executive Directors to be independent. All of the independent non-executive Directors have signed their respective confirmation letter to the Company confirming their independence as set out in Rule 3.13 of the Listing Rules.

ROLES AND FUNCTIONS OF THE BOARD AND THE MANAGEMENT

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, dividend policy and risk management strategies. The management are delegated the authorities and responsibilities by the Board for the day-to-day management and operation of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Pursuant to articles 84(1) and 84(2) of the Company's articles of association, one-third of the Directors for the time being shall retire by rotation at each annual general meeting of the Company at least once every three years. All retiring Director shall be eligible for re-election.

Article 83(3) of the Company's articles of association provides that (1) any director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting; and (2) any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The then applicable Code Provisions A.4.2 of CG Code also states that every director, including those appointed for a specific term, shall be subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company. Each of the Directors of the Company has been appointed for a specific term of 3 years and is subject to retirement by rotation once every three years. Their appointments would be reviewed when they were due for re-election.

BOARD MEETINGS

The Board holds at least four regular meetings a year which are normally scheduled at the beginning of the year. Directors may approve various matters by way of passing written resolutions. The Board may also meet on other occasions when a board-level decision on a particular matter is required. In addition, at least 14 days' notice of a regular Board meeting shall be given and the Company aims at sending the agenda and the accompanying board papers to Directors at a reasonable time before the intended date of Board meeting.

During the year ended 31 December 2021, the attendance records of the Directors at the Board meetings and general meetings of the Company are set out below:

Name of Directors	No. of board meeting attended/ No. of board meetings held	Attendance of annual general meeting held on 17 June 2021
Executive Directors		
Ms. Rong Xiuli	5/5	Yes
Mr. Rong Shengli	5/5	Yes
Mr. Yin Xuquan	5/5	Yes
Mr. Wong Ho Chun	5/5	Yes
Independent Non-Executive Directors		
Mr. Han Xiaojing	5/5	No
Mr. Wong Pong Chun James	5/5	Yes
Mr. Leung Man Fai	5/5	Yes

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Pursuant to the then applicable F.1.1 of Appendix 14 of the Listing Rules, the primary contact person at the Company is Mr. Lam Man Kit, the chief financial officer of the Company. All Directors may access to the advice and services of the company secretary of the Company (the "Company Secretary"). The Company Secretary regularly updates the Board on governance and regulatory matters.

The Board is fully involved in selection, appointment and dismissal of the Company Secretary. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

During the year ended 31 December 2021, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

ACCESS TO INFORMATION

All Directors are kept informed on a timely basis of major changes that may have affected the Group's business, including relevant rules and regulations and are able to make further enquiries when necessary. Sufficient explanation and information have been provided to the Board to enable the Board to make an informed assessment of financial and other information put before it for approval. They also have unrestricted access to the advices and services of the Company Secretary, who is responsible for providing the Directors with board papers and related materials. The Board has also agreed that the Directors may seek independent professional advice in appropriate circumstances in performing their directors' duties at the Company's expenses.

DIRECTORS INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The Directors are committed to complying with the then applicable CG Code A.6.5 on directors' training. All directors have participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility and provided a record of training they received for the financial year ended 31 December 2021 to the Company.

CORPORATE GOVERNANCE FUNCTION

The Audit Committee is responsible for performing the corporate governance duties under the then applicable Code Provision C.3.1 as set out below:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to directors and employees of the Company; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the execution of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

BOARD COMMITTEES

The Board has established four committees with specific responsibilities as described below. The terms of reference of the Remuneration Committee, the Nomination Committee, the Audit Committee and the risk management committee (the "Risk Management Committee") of the Company are posted on the websites of the Company and the Stock Exchange.

REMUNERATION COMMITTEE

As at 31 December 2021, the Remuneration Committee comprises two independent non-executive Directors, namely Mr. Han Xiaojing and Mr. Wong Pong Chun James and an executive Director, Ms. Rong Xiuli. Mr. Han Xiaojing is the chairman of the Remuneration Committee. The majority of the members of the Remuneration Committee are independent non-executive Directors.

The Remuneration Committee is responsible for reviewing and recommending all elements of the remuneration covering the Directors and senior management of the Company. No individual Director is involved in decisions relating to his/her own remuneration. The Remuneration Committee has adopted the model under the then applicable Code Provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual Directors and senior management of the Company. Meeting of the Remuneration Committee is held at least once a year.

During the year ended 31 December 2021, the Remuneration Committee held one meeting to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration package of the executive Directors, three independent non-executive Directors and senior management of the Company and other related matter.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2021 are disclosed in note 11 and note 30 to the consolidated financial statements.

Attendance of the members of the Remuneration Committee at the meeting(s) held during the year ended 31 December 2021 is set out below:

Members	**No. of meeting(s) attended/No. of meeting(s) held**
Mr. Han Xiaojing *(chairman)*	1/1
Ms. Rong Xiuli	1/1
Mr. Wong Pong Chun James	1/1

NOMINATION COMMITTEE

As at 31 December 2021, the Nomination Committee comprises an executive Director, Ms. Rong Xiuli as the chairperson, and two independent non-executive Directors, Mr. Han Xiaojing and Mr. Wong Pong Chun James as members. The majority of the members of the Nomination Committee are independent non-executive Directors.

The Nomination Committee is responsible for reviewing the Board composition and identifying and nominating candidates for appointment to the Board such that it has the required blend of skills, knowledge and experience. Pursuant to the terms of reference, the Nomination Committee shall hold meetings when necessary and may also deal with matters by way of circulation of written resolutions.

During the year ended 31 December 2021, the Nomination Committee held one meeting to review the structure, size and diversity of the Board; (ii) assess and confirm the independence of the independent non-executive Directors; (iii) consider the re-appointment of retiring Directors at the annual general meeting of the Company, and (iv) review the Board Diversity Policy of the Company.

Attendance of the members of the Nomination Committee at the meeting held during the year ended 31 December 2021 is set out below:

Members	**No. of meeting(s) attended/No. of meeting(s) held**
Ms. Rong Xiuli *(chairperson)*	1/1
Mr. Han Xiaojing	1/1
Mr. Wong Pong Chun James	1/1

AUDIT COMMITTEE

As at 31 December 2021, the Audit Committee comprises three independent non-executive Directors, namely Mr. Han Xiaojing, Mr. Wong Pong Chun James and Mr. Leung Man Fai. Mr. Leung Man Fai is the chairman of the Audit Committee. The Audit Committee is responsible for reviewing the Group's financial statements, overseeing the Group's financial reporting and internal control procedures, and making recommendations to the Board. None of the members of the Audit Committee is a member of the former or existing auditors of the Company. The Audit Committee has adopted the principles set out in the CG Code. Meetings of the Audit Committee are held at least twice a year.

The Audit Committee has access to and maintains an independent communication with the external auditors and management of the Company to ensure effective information exchange on all relevant financial accounting matters. During the year ended 31 December 2021, the Audit Committee held five meetings to (i) review and discuss the key audit matters, (ii) review annual report for the year ended 31 December 2020 and re-appointment of auditor; (iii) review and discuss the unaudited financial statements for the six months ended 30 June 2021; and (iv) recommend the change of auditors.

The chairman of the Audit Committee, Mr. Leung Man Fai, possesses appropriate professional qualification in accounting and meets the requirements of Rule 3.21 of the Listing Rules.

Attendance of the members of the Audit Committee at the meetings held during the year ended 31 December 2021 is set out below:

Members	**No. of meeting(s) attended/No. of meeting(s) held**
Mr. Leung Man Fai *(chairman)*	5/5
Mr. Han Xiaojing	3/5
Mr. Wong Pong Chun James	5/5

RISK MANAGEMENT COMMITTEE

As at 31 December 2021, the Risk Management Committee comprises three executive Directors, Ms. Rong Xiuli, Mr. Rong Shengli and Mr. Wong Ho Chun. Mr. Wong Ho Chun is the chairman of the Risk Management Committee.

The Risk Management Committee is responsible for reviewing the Group's risk management strategies and giving guidelines and ensuring the soundness and effectiveness of the Group's internal control system, and the effectiveness of the internal audit function of the Group, to safeguard the investment of the Shareholders and the assets of the Company. Meeting of the Risk Management Committee shall be held at least once a year.

During the year ended 31 December 2021, the Risk Management Committee held one meeting to review and discuss the internal control, risk management framework, risk assessment and effectiveness of the internal audit function of the Group for the year of 2021.

Attendance of the members of the Risk Management Committee at the meeting held during the year ended 31 December 2021 is set out below:

Members	**No. of meeting(s) attended/No. of meeting(s) held**
Mr. Wong Ho Chun *(chairman)*	1/1
Ms. Rong Xiuli	1/1
Mr. Rong Shengli	1/1

AUDITOR'S REMUNERATION

Following the resignation of SHINEWING (HK) CPA Limited as the Company's external auditor on 29 December 2021, Confucius International CPA Limited was appointed as the new external auditor of the Company on even date to fill the casual vacancy and to hold office until the conclusion of the 2022 annual general meeting of the Company. The responsibilities of the auditor with respect to the financial reporting are set out in the Independent Auditor's Report on pages 50 to 56 of this annual report. The independence of the external auditor is monitored by the Audit Committee which is primarily responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration.

For the year ended 31 December 2021, the total remuneration in respect of the audit services provided by the external auditor of the Company were as follows:

Service Category	Fees paid/payable RMB
Audit services	1,308,000
Non-audit services	–

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the six months ended 30 June 2021 and for the year ended 31 December 2021, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The Directors acknowledge their responsibility to prepare the financial statements as set out on page 59. The statement of the external auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 50 to 56 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

In order to comply with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules, the Board has the responsibilities for evaluating and determining the nature and level of risk tolerance of the Company, establishing and maintaining sound and effective risk management and internal control systems, and overseeing and reviewing the design, implementation and monitoring of such risk management and internal control systems on an ongoing basis, so as to safeguard shareholders' interest and protect the Company's assets against unauthorized use or disposal. The Board is also responsible for ensuring maintenance of proper accounting records to provide reliable financial information and compliance with relevant laws and regulations.

The Group established the risk management and internal control systems with aims to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable and not absolute assurance against material misstatements or losses caused by judgment in decision making process, human error, fraud or other irregularities.

During the year ended 31 December 2021, with the assistance of an external professional consultant, Crowe (HK) Risk Advisory Limited, and collaborating with risk management and internal control personnel, the Group has reviewed an internal audit charter to ensure it has defined the scope, duties and responsibilities as well as reporting protocol of its existing internal audit function. The Group has also conducted an annual risk assessment for the year to identify respective strategic risks, operational risks, financial risks and compliance risks of its major business segments. The identified risks were analysed and evaluated based upon a combination of the significance of consequence and the likelihood of its occurring. The management of the Company is responsible for the coordination, follow-up and monitoring of the risk mitigation plans. All the significant risks and its status of mitigation were reported to the Board and Audit Committee for discussion and approval in a timely manner. Based on the outcome of the risk assessment and following a risk-oriented methodology audit approach, the Company has devised a three-year audit plan that prioritized the significance of the risks identified into annual audit project to assist the Board, the Audit Committee and the Risk Management Committee in assessing the effectiveness of the Group's risk management and internal control systems on an annual basis. The Company has also formulated policies on handling and dissemination of inside information, which set out procedures in handling inside information in a secure and proper manner as well as those aimed to avoid mishandling of inside information of the Group.

The Board has discussed and reviewed its risk management and internal control systems with the review covered the compliance with the then applicable code provisions as set out in Appendix 14 to the Listing Rules and the validity of material controls (including financial, operational and compliance controls) at entity and operational levels. Based on the outcome of the review performed by the Audit Committee, Risk Management Committee and administrative management, the Directors considered and were of the opinion that the Group has maintained adequate and effective risk management and internal control systems for the year ended 31 December 2021.

SHAREHOLDERS' RIGHTS

Right to convene extraordinary general meeting

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 carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must specify the objects of the meeting, signed by the requisitionists and deposit it with the Company Secretary at the Company's principal place of business in Hong Kong at Unit 1506, 15/F., Tai Tung Building, 8 Fleming Road, Wanchai, Hong Kong.

If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

Right to propose a person for election as a Director at general meeting

Pursuant to article 85 of the Company's articles of association, if a Shareholder wishes to propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, he/she should give a written notice of nomination to the Company. Details for the relevant requirements and procedures can be found on the Corporate Governance section of the Company's website.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send in their enquiries and concerns to the Board in writing via the following channel:

The Board of Directors/Company Secretary Vital Innovations Holdings Limited
Unit 1506, 15/F., Tai Tung Building, 8 Fleming Road,
Wanchai, Hong Kong

Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company established a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. The Board is committed in providing clear and full performance information of the Group to Shareholders through the publication of interim and annual reports. In addition to the circulars, notices and financial reports sent to Shareholders, additional information of the Group is also available to Shareholders on the website of the Company.

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The chairman of the Board and Directors are available to answer questions on the Group's business at the meeting. All resolutions at the general meeting are decided by a poll which is conducted by the Company's branch share registrar and transfer office in Hong Kong.

The Group values feedback from Shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

The annual general meeting of the Company provides a useful forum for Shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address Shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval, members of the independent Board committee will also make an effort to address Shareholders' queries.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year under review.

天健國際會計師事務所有限公司
Confucius International CPA Limited Certified Public Accountants

香港灣仔莊士敦道181號大有大廈1501-08室
Rooms 1501-08,15th Floor, Tai Yau Building,
181 Johnston Road, Wanchai, Hong Kong
電話 Tel: (852) 3103 6980
傳真 Tel: (852) 3104 0170

TO THE MEMBERS OF VITAL INNOVATIONS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Vital Innovations Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 141, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("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.

Valuation of prepayments

Refer to note 20 to the consolidated financial statements.

As at 31 December 2021, the carrying amount of prepayments to suppliers amounted to approximately RMB573,678,000. It was mainly prepaid to two suppliers for purchase of mobile and smart appliances. The impairment assessment on the prepayments is based on evaluation of the recoverability of the prepayments by considering market demand, expected volume of transactions with the suppliers, ability of the suppliers to refund the prepayments and subsequent utilization up to the date of this report. No impairment has been recognised in relation to the prepayments to these major suppliers.

We identified the valuation of prepayments as a key audit matter since the carrying amount of prepayments was significant to the current assets and the significant degree of judgements and estimates made by the management in assessing the recoverability of the prepayments.

How our audit addressed the key audit matter

Our procedures in relation to the carrying amount of prepayments were designed to review the judgements and estimates made by the management on the recoverability of the prepayments to the suppliers as at 31 December 2021.

We have assessed the reasonableness of the assessment on impairment of prepayments performed by the management with reference to market demand, expected volume of transactions with the suppliers, the ability of the suppliers to refund the prepayments and subsequent utilization up to the date of this report.

Also, we have received confirmations from suppliers and confirmed the prepayment balance and checked the subsequent utilisation and subsequent refund of prepayments to the supporting documents.

KEY AUDIT MATTERS (Continued)

Estimated allowance of inventories

Refer to note 18 to the consolidated financial statements.

As at 31 December 2021, the carrying amount of the inventories was approximately RMB17,801,000. The impairment loss on inventories are reviewed by the management periodically, which involves significant degree of judgements and estimates on the net realisable value.

We have identified the carrying amount of the inventories as a key audit matter since the carrying amount of inventories was significant to the current assets and the assessment on the allowance for inventories involves significant judgements and estimates made by the management.

How our audit addressed the key audit matter

Our procedures in relation to the carrying amount of inventories were designed to review the judgements and estimates made by the management on the assessment on the allowance for inventories as at 31 December 2021.

We have reviewed the subsequent selling prices of the inventories less the estimated cost necessary to make the sale after 31 December 2021 and compared with their carrying amounts to consider whether the inventories were stated at lower of their costs or net realisable values. We also checked the sales documents related to the inventories as at 31 December 2021.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2020 were audited by the previous auditor of the Group who expressed an unmodified opinion on those statements on 31 March 2021.

Confucius International CPA Limited
Certified Public Accountants
Wong Kam Hing
Practising Certificate Number: P05697
Hong Kong, 31 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	5	**672,651**	881,137
Cost of sales		**(673,137)**	(960,705)
Gross loss		**(486)**	(79,568)
Other gains (losses), net	6	**1,392**	4,663
Other income	7	**686**	148
Selling and distribution costs		**(5,157)**	(5,547)
Administrative expenses		**(16,471)**	(16,619)
Finance costs	8	**(531)**	(687)
Loss before tax	9	**(20,567)**	(97,610)
Income tax	10	**–**	–
Loss and total comprehensive expense for the year		**(20,567)**	(97,610)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(20,505)**	(97,625)
Non-controlling interests		**(62)**	15
		(20,567)	(97,610)
Loss per share	13		
Basic and diluted (RMB cents)		**(2.41)**	(11.48)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current assets			
Equipment	15	**38**	69
Finance lease receivable	16	**–**	85
Right-of-use assets	28	**3,042**	588
		3,080	742
Current assets			
Inventories	18	**17,801**	27,100
Trade and other receivables	19	**16,115**	6,206
Prepayments	20	**573,678**	618,769
Finance lease receivable	16	**–**	109
Pledged bank deposits	21	**3,234**	3,305
Cash and bank balances	22	**26,652**	54,369
		637,480	709,858
Current liabilities			
Trade payables	23	**10,698**	29,931
Bank loans	24	**12,279**	20,395
Accruals and other payables	25	**52,779**	50,121
Contract liabilities	26	**16,527**	43,674
Lease liabilities	28	**1,261**	449
Tax liabilities		**3,531**	3,531
		97,075	148,101
Net current assets		**540,405**	561,757
Total assets less current liabilities		**543,485**	562,499

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Non-current liability			
Lease liabilities	28	**1,833**	280
Net assets		**541,652**	562,219
Capital and reserve			
Share capital	27	**67,041**	67,041
Share premium and reserves		**474,658**	495,163
Equity attributable to owners of the Company		**541,699**	562,204
Non-controlling interests		**(47)**	15
Total equity		**541,652**	562,219

The consolidated financial statements on pages 57 to 141 were approved and authorised for issue by the board of directors on 31 March 2022 and are signed on its behalf by:

Ms. Rong Xiuli
Director

Mr. Rong Shengli
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Attributable to owners of the Company							
	Share capital	Share premium	Special reserve	Other reserve	Retained profits (accumulated losses)	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note (i))	RMB'000 (Note (ii))	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	67,041	236,580	275,060	19,075	62,073	659,829	–	659,829
Loss and total comprehensive income (expense) for the year	–	–	–	–	(97,625)	(97,625)	15	(97,610)
At 31 December 2020 and 1 January 2021	67,041	236,580	275,060	19,075	(35,552)	562,204	15	562,219
Loss and total comprehensive expense for the year	–	–	–	–	(20,505)	(20,505)	(62)	(20,567)
At 31 December 2021	**67,041**	**236,580**	**275,060**	**19,075**	**(56,057)**	**541,699**	**(47)**	**541,652**

Notes:

i. Special reserve represents the profit in respect of the operation of the business unit now comprising the Group which was retained by the then legal owner, Beijing Benywave Technology Co., Ltd. ("Benywave Technology"), and the net funding generated by the business unit now comprising the Group retained by Benywave Technology prior to a group reorganisation.

ii. Other reserve represents the shareholder's contribution attributable to share-based payment.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Operating activities			
Loss for the year		**(20,567)**	(97,610)
Adjustments for:			
Finance costs	8	**531**	687
Depreciation of equipment	15	**31**	31
Depreciation of right-of-use assets	28	**936**	1,476
Interest income		**(69)**	(28)
Foreign exchange (gains) losses, net		**(1,436)**	2,876
Government grants		**–**	(588)
Reversal of impairment loss on other receivable, pledged bank deposits and bank deposit		**–**	(509)
Write-off of trade payables		**–**	(2,992)
Gain on derecognition of right-of-use assets		**–**	(76)
Gain on derecognition of lease liabilities		**(108)**	–
Loss on termination of a lease		**159**	–
Operating cash flows before movements in working capital		**(20,523)**	(96,733)
Decrease (increase) in inventories		**9,299**	(21,716)
Increase in trade and other receivables		**(9,909)**	(3,433)
Decrease in prepayments		**45,091**	62,084
Decrease in finance lease receivable		**38**	30
(Decrease) increase in trade payables		**(19,233)**	20,652
Increase in accrual and other payables		**2,660**	12,477
(Decrease) increase in contract liabilities		**(27,147)**	30,547
Cash (used in) generated from operating activities		**(19,724)**	3,908
Income tax paid		**–**	–
Net cash (used in) generated from operating activities		**(19,724)**	3,908

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	**2021** **RMB'000**	2020 RMB'000
Investing activities			
Withdrawal of pledged bank deposits		**12,897**	78,000
Interests income received		**66**	25
Placement of pledged bank deposits		**(12,826)**	(78,013)
Net cash from investing activities		**137**	12
Financing activities	32		
Payment of lease liabilities		**(917)**	(1,522)
Repayment of bank loans		**(93,957)**	(122,724)
New bank loans raised		**86,325**	123,655
Interest paid		**(463)**	(700)
Receipts from government subsidies		**–**	588
Interest paid on lease payment		**(70)**	(55)
Net cash used in financing activities		**(9,082)**	(758)
Net (decrease) increase in cash and cash equivalents		**(28,669)**	3,162
Effect of foreign exchange rate changes		**952**	–
Cash and cash equivalents at 1 January		**54,369**	51,207
Cash and cash equivalents at 31 December – represented by cash and bank balances		**26,652**	54,369

1. GENERAL INFORMATION

Vital Innovations Holdings Limited (the "Company") was established in the Cayman Islands as an exempted company with limited liability on 12 August 2014. The immediate and ultimate holding company of the Company is Winmate Limited ("Winmate") which is incorporated in the British Virgin Islands (the "BVI") and is 90% and 10% owned by Ms. Rong Xiuli ("Ms. Rong") and Mr. Ni Gang ("Mr. Ni"), the husband of Ms. Rong, respectively.

On 26 June 2015, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report. The Company is principally engaged in investment holding and the principal activities of its subsidiaries (together with the Company collectively referred to as the "Group") are set out in note 36.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the annual period beginning on 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to IFRS 16	COVID-19 Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest rate Benchmark Reform – Phase 2

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to IAS 8	Definition of Accounting Estimates[3]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to IAS 16	Property, plant and equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRSs	Annual improvements to IFRSs 2018 – 2020 cycle[2]
Amendments to IFRS 3, IAS 16 and IAS 37	Narrow-scope amendments[2]
Accounting Guideline 5 (revised)	Merger Accounting for Common Control Combinations[2]
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9[3]

1 Effective for annual periods beginning on or after 1 April 2021.

2 Effective for annual periods beginning on or after 1 January 2022.

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

4 Effective date to be determined.

The directors of the Company anticipate that the application of all the above new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting periods, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are accounted for in accordance with IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and cease when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Revenue from contracts with customers

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- The Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

Revenue is measured based on the consideration specified in a contract with a customer, excludes value-added taxes or other sales taxes and is after deduction of any trade discounts.

Contract liabilities

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

The Group recognised revenue from the following major sources:

- Sales of mobile and smart appliances

- Sales AI and other equipment

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Sales of goods

Revenue from sales of mobile and smart appliances and AI and other equipment is recognised at a point in time when the control of the goods is transferred to the customers. Control of the goods is considered transferred to customers at the time of delivery and accepted by the customers according to the terms of contracts. There is generally only one performance obligation and the consideration include no variable amount. Customer generally are required to pay full amount before delivery. However, a 60-day credit period may be granted to some customers. There is no warranty and right of return clause in contracts with customers.

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application of IFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

When the Group obtains ownership of the underlying leased assets at the end of the lease term upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to equipment.

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

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

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

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

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

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessor (Continued)

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Government grants

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

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

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

Retirement benefits costs and termination benefits

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment

Equity-settled share-based payment transactions

Equity-settled share-based payments to directors and employees providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straightline basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve (other reserve). For restricted share units that vest immediately at the date of grant, the fair value of the restricted share units granted is expensed immediately to profit or loss.

Taxation

Income tax represents the sum of the tax currently payable and deferred tax.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment

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

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

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

Impairment on equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating units or group of cash-generating units.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on equipment and right-of-use assets (Continued)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories is determined on weighted average method comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks or other financial institutions and short-term, highly liquid investments that are readily convertible to known amount of cash, are subject to an significant risk of changes in value, and are within three months of maturing at acquisition.

Investment in a subsidiary

Investment in a subsidiary is stated on the statement of financial position of the Company at cost less accumulated impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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 and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group's ordinary course of business are included in other income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets including finance lease receivable, trade and other receivables, pledged bank deposits and cash and bank balances which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

The Group recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances.

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

(iii) Credit-impaired financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities including accruals and other payables, trade payables, bank loans and lease liabilities are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A related party is a person or an entity that is related to the Group.

(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 the key management personnel of the Group or the Group's parent.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

(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 has a post-employment benefit plan for the benefit of 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 the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close member 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 Group include:

(i) the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's senior management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3 to the consolidated financial statements, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies

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

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. The Company considers that its functional currency is RMB. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services and also the currency in which funds from financing activities and the currency in which receipts from operating activities are usually retained.

When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

Principal versus agent consideration (principal)

The Group engages in trading of mobile and smart appliances and AI and other equipment. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the products to customers. The Group has inventory risk and price risk before the products has been transferred to the customer. When the Group satisfies the performance obligation, the Group recognises trading revenue in the gross amount of consideration to which the Group expects to be entitled as specified in the contracts.

During the year ended 31 December 2021, the Group recognised revenue relating to trading of mobile and smart appliances and AI and other equipment amounted to RMB651,059,000 and RMB21,592,000 respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

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

Estimated allowance for inventories

The management performs review periodically on the net realisable value ("NRV") of inventories and makes allowance for inventories based on the review. The identification of slow moving and obsolete inventories requires the use of judgment and estimates on the conditions and saleability of the inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the NRV is lower than the cost of inventories. In determining the NRV, the management considers the subsequent selling prices less the estimated costs necessary to make the sale and the return of inventories. As at 31 December 2021, there was no write down of inventory.

Estimated impairment on prepayments

Management assesses whether there is any impairment of prepayments for purchases of mobile and smart appliances and AI and other equipment on an ongoing basis. The impairment assessment is based on evaluation of the recoverability of the prepayments by considering market demand, expected volume of transactions with the suppliers and ability of the suppliers to deliver the goods and refund the prepayments. If market demand, expected volume of transactions with the suppliers or ability of the suppliers to deliver the goods and refund the prepayments were to deteriorate, the actual recoverability of the prepayments may be lower than expected, an impairment may need to be recognised.

As at 31 December 2021, the carrying amount of prepayments is approximately RMB573,678,000 (2020: RMB618,769,000).

Income tax

As at 31 December 2021, no deferred tax asset has been recognised on the tax losses and deductible temporary differences of approximately RMB109,527,000 in aggregate (2020: RMB114,995,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are less or more than expected, or changes in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts.

	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15 are recognised at a point in time as follows:		
Mobile and smart appliances	**651,059**	773,421
AI and other equipment	**21,592**	107,716
	672,651	881,137

Information reported to the board of directors of the Company (the "Board"), being the chief operating decision maker ("CODM"), for the purposes of reserve allocation and assessment of segment performance focuses on types of products sold.

During the years ended 31 December 2021 and 2020, the Group has two reportable and operating segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

– Trading of mobile (including mobile telecommunication related components and accessories) and smart appliances ("Trading of mobile and smart appliances")

– Trading of AI and other equipment

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

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

	Trading of mobile and smart appliances		Trading of AI and others equipment		Total	
	2021	2020	**2021**	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue	**651,059**	773,421	**21,592**	107,716	**672,651**	881,137
Segment (loss) profit	**(3,275)**	668	**(2,368)**	(85,783)	**(5,643)**	(85,115)
Other gains (losses), net					**1,392**	4,663
Other income					**686**	148
Finance costs					**(531)**	(687)
Unallocated corporate expenses					**(16,471)**	(16,619)
Loss before tax					**(20,567)**	(97,610)

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

There were no inter-segment sales in both years.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	2021 **RMB'000**	2020 RMB'000
Segment assets		
Trading of mobile and smart appliances	**619,321**	328,825
Trading of AI and other equipment	**9,567**	371,311
Unallocated	**11,672**	10,464
Total assets	**640,560**	710,600
Segment liabilities		
Trading of mobile and smart appliances	**24,914**	33,795
Trading of AI and other equipment	**1,666**	36,863
Unallocated	**72,328**	77,723
Total liabilities	**98,908**	148,381

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

- all assets are allocated to operating segments other than certain other receivables, finance lease receivables, pledged bank deposits and certain bank balances and cash as these assets are managed on a group basis; and
- all liabilities are allocated to operating segments other than certain trade payables, certain accruals and other payables, tax liabilities and bank loans.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

	Trading of mobile and smart appliances RMB'000	**Trading of AI and other equipment RMB'000**	**Unallocated RMB'000**	**Total RMB'000**
Amounts included in the measurement of segments profit or loss or segment assets				
Year ended 31 December 2021				
Additions to non-current assets	**3,581**	**–**	**–**	**3,581**
Depreciation of equipment	**29**	**2**	**–**	**31**
Depreciation of right-of-use assets	**819**	**117**	**–**	**936**

	Trading of mobile and smart appliances RMB'000	Trading of AI and other equipment RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measurement of segments profit or loss or segment assets				
Year ended 31 December 2020				
Additions to non-current assets	–	632	–	632
Depreciation of equipment	29	2	–	31
Depreciation of right-of-use assets	941	535	–	1,476

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the external customers.

	Trading of mobile and smart appliances RMB'000	Trading of AI and other equipment RMB'000	Total RMB'000
Year ended 31 December 2021			
Hong Kong	**636,416**	**–**	**636,416**
The People's Republic of China (the "PRC")	**14,643**	**21,592**	**36,235**
Other countries	**–**	**–**	**–**
Total	**651,059**	**21,592**	**672,651**

	Trading of mobile and smart appliances RMB'000	Trading of AI and other equipment RMB'000	Total RMB'000
Year ended 31 December 2020			
Hong Kong	773,307	–	773,307
The PRC	114	107,106	107,220
Other countries	–	610	610
Total	773,421	107,716	881,137

The Group's operations and non-current assets are located in the PRC, including Hong Kong.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	2021 RMB'000	2020 RMB'000
Customer A[1]	**568,112**	702,978

No other single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2021 and 2020.

1. Revenue from trading of mobile and smart appliances segment.

6. OTHER GAINS (LOSSES), NET

	2021 RMB'000	2020 RMB'000
Foreign exchange gains (losses), net	**1,436**	(2,876)
Reversal of impairment loss on other receivables, pledged bank deposits and bank deposit	**–**	509
Government grants (note)	**–**	588
Gain on write-off of trade payables	**–**	2,992
Gain from sales of scrap materials	**–**	3,947
Gain on derecognition of lease liabilities	**108**	–
Loss on termination of a lease	**(159)**	–
Others	**7**	(497)
	1,392	4,663

Note: During the year ended 31 December 2020, the Group recognised government grants of approximately RMB588,000 in respect of COVID-19 related subsidies, of which an amount of approximately RMB561,000 was related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund.

7. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Interest income on pledged bank deposits	**4**	18
Interest income on finance leases	**3**	3
Interest income on bank balances	**62**	7
	69	28
Services income	**400**	76
Others	**217**	44
	686	148

8. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on bank loans	**461**	632
Interest on lease liabilities	**70**	55
	531	687

9. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2021 RMB'000	2020 RMB'000
Directors' emoluments (note 11)	**3,453**	3,782
Other staff		
– salaries and other allowances	**7,650**	5,937
– retirement benefits schemes contributions (excluding directors)	**361**	406
Total staff costs	**11,464**	10,125
Auditor's remuneration – audit services	**1,308**	1,850
Cost of inventories recognised as an expense	**673,137**	960,705
Depreciation of equipment	**31**	31
Depreciation of right-of-use assets	**936**	1,476
Expenses related to short-term leases	**1,418**	1,607

10. INCOME TAX

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax was made as the Group did not have any assessable profits generated for the years ended 31 December 2021 and 2020.

The Company's subsidiaries incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% (2020: 16.5%).

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries are 25% from 1 January 2008 onwards. For the year ended 31 December 2020, a PRC subsidiary, 北京百納威爾無線通訊設備有限公司, Beijing Benywave Wireless Communication Co., Ltd ("Benywave Wireless")* was recognised as "New and High Technology Enterprises" and is entitled to apply a preferential tax rate of 15%.

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

	2021 **RMB'000**	2020 RMB'000
Loss before tax	**(20,567)**	(97,610)
Tax at applicable income tax rate	**(3,257)**	(15,151)
Tax effect of expenses not deductible for tax purposes	**1,899**	4,028
Tax effect of income not taxable for tax purpose	**–**	(108)
Tax effect of super deduction on research and development expense	**(138)**	(64)
Tax effect of tax losses not recognised	**1,792**	11,378
Utilisation of tax losses previous not recognised	**(304)**	–
Others	**8**	(83)
Tax charge for the year	**–**	–

Details of the deferred taxation are set out in note 17.

* The English name of the above company is for reference only.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the nine (2020: nine) directors, including the chief executive, were as follows:

For the year ended 31 December 2021

	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits schemes contributions RMB'000	Total emoluments RMB'000
Emoluments paid or payable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings:				
Executive directors				
Ms Rong	–	260	–	260
Mr. Rong Shengli	–	784	72	856
Mr. Yin Xuquan	–	780	48	828
Mr. Wong Ho Chun	–	597	15	612
Independent non-executive directors				
Mr. Hon Kwok Ping Lawrence[1]	–	–	–	–
Mr. Lam Yiu Kin[1]	–	–	–	–
Mr. Han Xiaojing	299	–	–	299
Mr. Wong Pong Chun James[2]	299	–	–	299
Mr. Leung Man Fai[2]	299	–	–	299
Total	897	2,421	135	3,453

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

For the year ended 31 December 2020

	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits schemes contributions RMB'000	Total emoluments RMB'000
Emoluments paid or payable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings:				
Executive directors				
Ms Rong	–	580	–	580
Mr. Rong Shengli	–	755	86	841
Mr. Yin Xuquan	–	775	72	847
Mr. Wong Ho Chun	–	640	16	656
Independent non-executive directors				
Mr. Hon Kwok Ping Lawrence[1]	269	–	–	269
Mr. Lam Yiu Kin[1]	269	–	–	269
Mr. Han Xiaojing	320	–	–	320
Mr. Wong Pong Chun James[2]	–	–	–	–
Mr. Leung Man Fai[2]	–	–	–	–
Total	858	2,750	174	3,782

Notes:

1. Resigned on 31 October 2020

2. Appointed on 31 December 2020

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

Mr. Rong Shengli is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

No directors waived or agreed to waive any emoluments during the years ended 31 December 2021 and 2020.

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office for the years ended 31 December 2021 and 2020.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2020: four), details of whose remunerations are set out in note 11 above. The emoluments of the remaining two (2020: one) individuals are as follows:

	2021	2020
	RMB'000	RMB'000
Salaries and allowances	**1,249**	686
Retirement benefits scheme contributions	**61**	16
	1,310	702

The number of the highest paid employee(s) who are not directors of the Company whose remuneration fell within the following bands is as follows:

	Number of individuals	
	2021	2020
Nil to Hong Kong Dollar ("HK$") 1,000,000 (equivalent to nil to approximately RMB818,000)	**2**	1

For the year ended 31 December 2021, no remuneration were paid by the Group (2020: nil) to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no arrangement under which any of the five highest paid individuals waived or agreed to waive any of the remuneration.

13. LOSS PER SHARE

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

	2021	2020
	RMB'000	RMB'000
Loss:		
Loss for the purposes of basic and diluted loss per share, representing loss for the year attributable to owners of the Company	**(20,505)**	(97,625)

	2021	2020
	'000	'000
Number of shares:		
Number of ordinary shares for the purposes of basic and diluted loss per share	**850,000**	850,000

Diluted loss per share is equal to basic loss per share as there were no dilutive potential ordinary shares in issue during the years ended 31 December 2021 and 2020.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2021 and 2020, nor has any dividend been proposed since the end of the reporting period.

15. EQUIPMENT

	RMB'000
COST	
At 1 January 2020, 31 December 2020 and 31 December 2021	367
DEPRECIATION	
At 1 January 2020	267
Provided for the year	31
At 31 December 2020 and 1 January 2021	298
Provided for the year	31
At 31 December 2021	329
CARRYING VALUES	
At 31 December 2021	38
At 31 December 2020	69

The equipment are depreciated on a straight-line basis over the estimated useful life of 5 years.

16. FINANCE LEASE RECEIVABLE

A leased premises located in Dongguan, PRC is sub-leased out under finance lease arrangement. Interest rate inherent in the lease is fixed at the contract date over the lease terms.

	2021 **RMB'000**	2020 RMB'000
Non-current	**–**	85
Current	**–**	109
	–	194

The lease is denominated in RMB. The Group entered into a finance lease arrangement as a lessor for office premises to its customer. The term of finance lease entered into is 2 years. Generally, this lease contract do not include extension or early termination options.

	2021 **RMB'000**	2020 RMB'000
Amounts receivable under finance lease		
Within 1 year	–	116
After 1 year but within 2 years	–	87
Undiscounted lease payments and gross investment in lease	–	203
Less: unearned finance income	–	(9)
Present value of minimum lease payment receivable	–	194

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

	2021 **RMB'000**	2020 RMB'000
Finance income on finance lease	**3**	3
Loss on termination of a lease (note)	**(159)**	–

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

Note: During the year ended 31 December 2021, the Group early terminated the sub-leased agreement with its customer, resulting in a loss on termination of a lease of approximately RMB159,000.

17. DEFERRED TAX

Deferred tax assets have not been recognised in respect of the following items:

	2021 RMB'000	2020 RMB'000
Tax losses	**46,181**	36,601
Other deductible temporary differences	**63,346**	78,394
	109,527	114,995

No deferred tax asset has been recognised in relation to the unutilised tax losses and other deductible temporary differences due to the unpredictability of future profit streams of the relevant entities and it is not probable that taxable profit or taxable temporary differences will be available against which the tax losses and the deductible temporary differences can be utilised. Other deductible temporary differences are mainly arising from impairment of intangible assets, depreciation allowances and allowances on doubtful debt and inventories.

At the end of the reporting period, the Group has unused tax losses of approximately RMB41,013,000 (2020: RMB30,342,000) which arose in Hong Kong and are available for offset against future profits that may be carried forward indefinitely. The remaining unrecognised tax losses of approximately RMB5,168,000 (2020: RMB6,259,000) will be expired as follows:

	2021 RMB'000	2020 RMB'000
2024	**5,000**	–
2025	**43**	43
2026	**125**	–
2029	**–**	6,216
	5,168	6,259

Certain tax losses of approximately RMB4,441,000 attributable to a subsidiary was disallowed by the Inland Revenue Department for the year ended 31 December 2020.

18. INVENTORIES

	2021 RMB'000	2020 RMB'000
Finished goods	**17,801**	27,100

The management has performed a NRV assessment as at 31 December 2021 with reference to the subsequent selling prices less the estimated costs necessary to make the sale. The directors of the Company considered that there was no impairment of inventories required for the years ended 31 December 2021 and 2020.

19. TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**2,500**	–
Less: allowance for credit losses	**–**	–
	2,500	–
Other receivables		
– Notes receivable (Note b)	**5,711**	–
– Refundable deposit for a potential acquisition (Note a)	**5,000**	–
– Other PRC tax receivables	**2,057**	5,383
– Others	**875**	851
	13,643	6,234
Less: allowance for credit losses	**(28)**	(28)
Total trade and other receivables	**16,115**	6,206

19. TRADE AND OTHER RECEIVABLES (Continued)

The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on the invoice dates.

	2021	2020
	RMB'000	RMB'000
Within 30 days	**2,500**	–

As at 31 December 2021, there is no past due balance of trade receivables (2020: Nil). The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

The Group assesses the customer's credit quality by evaluating their historical credit records and defines credit limits for each customer. Recoverability and credit limit of the existing customers are reviewed by the management regularly.

Note a: On 16 December 2021, the Company entered into a non-legally binding memorandum of understanding ("MOU") with a vendor in relation to a possible acquisition by the Company (or its designated nominee) of a 70% to 90% equity interest in a company incorporated in the PRC from the vendor. On 22 December 2021, the Company paid a sum of RMB5,000,000, being a refundable earnest money to the vendor in accordance with the MOU.

Note b: The balance represented a bank's acceptance bill which had been fully settled subsequent to the reporting period.

Further details on the Group's credit policy, ECL assessment and credit risk arising from trade and other receivables are set out in note 31.

20. PREPAYMENTS

	2021	2020
	RMB'000	RMB'000
Prepayments to suppliers of:		
– AI and other equipment (note (a))	**–**	310,899
– Mobile and smart appliances (note (b))	**573,678**	307,870
	573,678	618,769

Notes:

(a) As at 31 December 2021, the Group had no prepayments for purchase of AI and other equipment. As at 31 December 2020, the Group had made prepayments for purchase of AI and other equipment amounted to approximately RMB310,899,000, of which approximately RMB310,879,000 was paid to a surgical masks machine supplier who was independent third party to the Group. The balance was fully refunded during the year 2021.

(b) As at 31 December 2021, the Group had made prepayments to mainly two independent suppliers to purchase mobile and smart appliances for trading business in a total of approximately RMB554,773,000.

Subsequent to the year ended 31 December 2021, approximately RMB355,700,000 of the prepayments for mobile and smart appliances were recognised as purchases upon the receipt of the goods from the supplier and all these ordered goods have been sold to the Group's external customer. The sale proceeds has been fully settled on 24 March 2022.

Due to the impact of Covid-19 pandemic outbreak affecting supply orders and delivery arrangements, the Group and the supplier entered into an agreement for the refund of part of the prepayment amounting to RMB199,073,000 by the supplier. The prepayment have been refunded to the Group in two tranches, i.e. RMB11,000,000 and RMB188,073,000 on 18 March 2022 and 30 March 2022 respectively.

21. PLEDGED BANK DEPOSITS

The pledged bank deposits mainly represent deposits pledged for bills payable and bank loans. As at 31 December 2021, the pledged bank deposits carry interest ranged from 0.10% to 0.15% (2020: 0.15% to 0.35%) per annum.

	2021	2020
	RMB'000	RMB'000
Pledged bank deposits	**3,234**	3,305

Included in pledged bank deposits are the following amounts denominated in currency other than the functional currency of the relevant group entity:

	2021	2020
	RMB'000	RMB'000
United States Dollar ("USD")	**3,208**	3,279

22. CASH AND BANK BALANCES

	2021 RMB'000	2020 RMB'000
Cash and bank balances	**26,652**	54,369

Included in cash and bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2021 RMB'000	2020 RMB'000
USD	**25,007**	18,381
Hong Kong Dollar ("HKD")	**510**	636
Euro ("EUR")	**65**	75

Bank balances carry interest at market rates which ranged from nil to 0.30% (2020: nil to 0.30%) per annum.

As at 31 December 2021, the bank balances denominated in RMB, amounting to approximately RMB1,070,000 (2020: RMB35,277,000) were deposited with banks in the PRC. The remittance of such balances out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

23. TRADE PAYABLES

	2021 **RMB'000**	2020 RMB'000
Trade payables	**10,698**	29,931

The following is an ageing analysis of trade payables based on the invoice dates at the end of the reporting period:

	2021 **RMB'000**	2020 RMB'000
Within 90 days	**2,196**	8,293
91 to 180 days	**–**	13,121
181 days to 1 year	**–**	–
Over 1 year	**8,502**	8,517
Total	**10,698**	29,931

The average credit period on purchases of goods is 30-90 days but the credit terms can be longer subject to individual supplier policy and the result of negotiation between the supplier and the Group. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Included in trade payables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entity:

	2021 **RMB'000**	2020 RMB'000
USD	**5,185**	8,293
HKD	**643**	658

24. BANK LOANS

As at 31 December 2021, the amount comprised six secured bank loans (2020: seven). The terms and conditions of each loan are set out below.

As at 31 December 2021	Maturity date	Carrying amount RMB'000
Variable-rate bank loans:		
Secured bank loan I	7 January 2022	**1,933**
Secured bank loan II	10 February 2022	**2,561**
Secured bank loan III	17 February 2022	**1,932**
Secured bank loan IV	17 February 2022	**2,568**
Secured bank loan V	18 February 2022	**1,949**
Secured bank loan VI	21 February 2022	**1,336**
Total bank loans		**12,279**

As at 31 December 2020	Maturity date	Carrying amount RMB'000
Variable-rate bank loans:		
Secured bank loan I	8 January 2021	5,050
Secured bank loan II	16 February 2021	3,179
Secured bank loan III	16 February 2021	1,589
Secured bank loan IV	16 February 2021	3,721
Secured bank loan V	26 February 2021	508
Secured bank loan VI	8 February 2021	2,126
Secured bank loan VII	9 February 2021	4,222
Total bank loans		20,395

The secured bank loans are charged at the 3.25% (2020: 3.25% to 4.75%) being United States Prime Rate per annum.

24. BANK LOANS (Continued)

The bank loans were jointly secured by (i) the properties owned by an individual, an independent third party to the Group, (ii) personal guarantee provided by a director of the Company; and (iii) a pledged bank deposit of approximately USD503,000 (equivalent to approximately RMB3,208,000) (note 21) (2020: (i) the properties owned by an individual, an independent third party to the Group; (ii) personal guarantee provided by a director of the Company; and (iii) a pledged bank deposit of approximately USD503,000 (equivalent to approximately RMB3,279,000)).

The Group's bank loans that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2021	2020
	RMB'000	RMB'000
USD	**12,279**	20,395

25. ACCRUALS AND OTHER PAYABLES

	2021	2020
	RMB'000	RMB'000
Royalties payable (note (a))	**13,210**	13,210
Staff costs payable	**1,549**	1,238
Payable for insurance premium and freights	**942**	942
Interest payable	**43**	45
Dividends payable	**252**	252
Other PRC tax payables	**13,099**	13,120
Others payable (note (b))	**23,684**	21,314
	52,779	50,121

Notes:

(a) The royalties payable represents accrued royalty fees in prior years for Original Design Manufacturer ("ODM") business which was ceased in year 2016.

(b) The others payable includes (i) accrued professional fees and deposits received from ODM business amounting to approximately RMB13,693,000 (2020: RMB14,176,000) in prior years; and (ii) amount due to an independent third party of approximately USD1,202,000 (equivalent to approximately RMB7,662,000) (2020: USD701,000 (equivalent to approximately RMB4,577,000)) which is unsecured, non-interest bearing and repayable on demand.

25. ACCRUALS AND OTHER PAYABLES (Continued)

Included in accruals and other payables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entity:

	2021	2020
	RMB'000	RMB'000
USD	**21,202**	18,559

26. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2021 and 2020 and is expected to be recognised within one year:

	2021	2020
	RMB'000	RMB'000
Sales of goods	**16,527**	43,674

It represented amounts received from customers in advance in relation to sales of goods. The amounts will be recognised as sales when control of the goods has transferred, being when the products are delivered and accepted by the customers according to the terms of contracts.

26. CONTRACT LIABILITIES (Continued)

Movements in contract liabilities

	2021 RMB'000	2020 RMB'000
At 1 January	**43,674**	13,127
Decrease in contract liabilities as a result of recognised as revenue during the year	**(43,614)**	(11,414)
Decrease in contract liabilities as result of termination of contracts	**(60)**	–
Increase in contract liabilities as a result of billing in advance of sales of goods	**16,527**	41,961
At 31 December	**16,527**	43,674

The significant changes in contract liabilities in 2021 were mainly due to the continuous decrease from the customers' orders during the year.

27. SHARE CAPITAL

	Number of shares		Share Capital	
	2021 **'000**	2020 '000	**2021** **RMB'000**	2020 RMB'000
Issued and fully paid:				
Ordinary shares of HK$0.1 each	**850,000**	850,000	**67,041**	67,041

28. LEASES

(i) Right-of-use assets

	Properties RMB'000	**Equipment** RMB'000	**Warehouse** RMB'000	**Total** RMB'000
At 31 December 2021				
Carrying amount	1,104	112	1,826	3,042
At 31 December 2020				
Carrying amount	405	183	–	588
For the year ended 31 December 2021				
Depreciation charge	698	72	166	936
For the year ended 31 December 2020				
Depreciation charge	1,402	74	–	1,476

	Year ended 31/12/2021 RMB'000	Year ended 31/12/2020 RMB'000
Expense relating to short-term leases	**1,418**	1,607
Total cash outflow for leases	**2,405**	3,184
Additions to right-of-use assets	**3,581**	632
Derecognition of right-of-use assets	**191**	145

28. LEASES (Continued)

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

The Group has lease contracts for properties, equipment and warehouse for its operations. The leases terms are generally a period of 3 years (2020: 2 to 3 years).

In respect of lease arrangement for equipment, the Group has options to purchase equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such lease.

Additions to the right-of-use assets for the year ended 31 December 2021 amounted to approximately RMB3,581,000 are due to new leases of office premises and warehouse. On the other hand, the right-of-use assets for the year ended 31 December 2021 amounted to approximately RMB191,000 is derecognised due to lease contracts of office premises were terminated.

Additions to the right-of-use assets for the year ended 31 December 2020 amounting to approximately RMB632,000 are due to new leases of office premises and equipment. On the other hand, the right-of-use asset for the year ended 31 December 2020 amounting to approximately RMB145,000 is derecognised due to a office premise was sub-leased under a finance lease arrangement.

28. LEASES (Continued)

(ii) Lease liabilities

	2021 RMB'000	2020 RMB'000
Lease liabilities payables:		
Within one year	**1,261**	449
Within a period of more than one year but not exceeding two years	**1,270**	237
Within a period of more than two years but not exceeding five years	**563**	43
	3,094	729
Less: Amount due for settlement with 12 months shown under current liabilities	**(1,261)**	(449)
Amount due for settlement after 12 months	**1,833**	280

The weighted average incremental borrowing rates applied to lease liabilities from 3.25% to 4.75% (2020: from 4.75% to 5.5%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2021 RMB'000	2020 RMB'000
HKD	**2,978**	176

29. RETIREMENT BENEFITS CONTRIBUTIONS

The Group operates the MPF Scheme for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contributions per employee is HK$1,500 per month. During the year ended 31 December 2021, the retirement benefits schemes contributions arising from the MPF Scheme charged to profit or loss were approximately RMB125,000 (2020: RMB147,000).

The PRC employees of the Group are members of a state-managed retirement benefits plan operated by the government of the PRC. The PRC subsidiaries of the Company are required to contribute a specified percentage of payroll costs to the retirement benefits plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefits plan is to make the specified contributions. During the year ended 31 December 2021, the retirement benefits contributions charged to profit or loss were approximately RMB371,000 (2020: RMB433,000).

During the years ended 31 December 2021 and 2020, there were no contributions forfeited by the Group on behalf of its employees who leave the plan prior to vesting fully in such contribution, nor had there been any utilisation of such forfeited contributions to reduce future contributions. As at 31 December 2021 and 2020, no forfeited contributions were available for utilisation by the Group to reduce the existing level of contributions.

30. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Beijing Tianyu Communication Equipment Co. Ltd. ("Tianyu")* 北京天宇朗通通信設備股份有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Rongheng Innovation Technology Co. Ltd. ("Rongheng")* 北京榮恒創聯科技有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Tianlang Huigu Technology Co. Ltd. ("Tianlang")* 北京天朗慧谷科技有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Zhuoyue Tianhe Management Co., Ltd. ("Zhuoyue Tianhe")* 北京卓越天和運營管理有限公司	Company controlled by Ms. Rong
Beijing Benywave Technology Co., Ltd. ("Benywave Technology")* 北京百納威爾科技有限公司	Company controlled by Ms. Rong and Mr. Ni
Beijing Tianyu Operation Management Co., Ltd. ("Tianyu Operation")* 北京天語運營管理有限公司	Company controlled by Ms. Rong and Mr. Ni

* The English name of the above companies are for reference only.

30. RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions

	2021	2020
	RMB'000	RMB'000
Premises rental expenses charged by Tianyu	**–**	447
Premises rental expenses charged by Rongheng	**–**	136
Premises rental expenses charged by Tianlang (Note (ii))	**154**	14
Premises rental expenses charged by Benywave Technology (Note (i))	**69**	78
Management expenses charged by Zhuoyue Tianhe (Note (ii))	**60**	5
Service income received from Zhuoyue Tianhe	**–**	15
Consultancy service income received from Tianyu Operation	**400**	76

Notes:

(i) In January 2019, the Group entered into a 21-month lease in respect of certain equipment from Benywave Technology. The amount of rent payable by the Group under the lease is approximately RMB6,000 per month. As at 31 December 2021, no carrying amount of such lease liabilities (2020: Nil). During the year ended 31 December 2021, the Group has made no lease payment (2020: RMB43,000) to Benywave Technology.

During the year ended 31 December 2020, the Group entered into a three-year lease in respect of certain equipment from Benywave Technology. The amount of rent payable by the Group under the lease is approximately RMB6,400 per month. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of approximately RMB216,000 respectively. During the year ended 31 December 2021, the Group has made lease payment of approximately RMB69,000 (2020: RMB35,000) to Benywave Technology.

30. RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions (Continued)

Notes (Continued):

(ii) Since July 2020, the Group made the lease payment of approximately RMB136,000 to Rongheng, where the lease is accounted for as a short-term lease, for the year ended 31 December 2020. In November 2020, the Group entered into a tripartite agreement to cancel the previous agreement with Rongheng and entered a new agreement with Tianlang. During the year ended 31 December 2021, the Group has made the lease payment of approximately RMB154,000 (2020: RMB14,000) to Tianlang where the lease is accounted for as a short-term lease. In addition, the Group made the management fee payment of approximately RMB60,000 (2020: RMB5,000) to Zhuoyue Tianhe during the year ended 31 December 2021.

In 2021, the Group entered into an agreement with Tianyu operation related to consultancy service. The Group has provided professional opinion for the plan, operation, promotion and marketing of the projects of Tianyu operation. During the year ended 31 December 2021, the consultancy service income received from Tianyu is RMB400,000 (2020: RMB76,000).

(c) Remuneration of key management personnel of the Group

	2021 **RMB'000**	2020 RMB'000
Short term employee benefits	**3,964**	4,456
Post-employment benefits	**150**	193
	4,114	4,649

(d) Guarantee

As at 31 December 2021, a director of the Company has provided a personal guarantee as part of the security for the bank loans of approximately RMB12,279,000 (2020: RMB20,395,000).

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets at amortised cost		
Trade and other receivables	**14,058**	823
Finance lease receivables	**–**	194
Pledged bank deposits	**3,234**	3,305
Cash and bank balances	**26,652**	54,369
	43,944	58,691
Financial liabilities at amortised cost		
Accruals and other payables	**26,470**	23,791
Trade payables	**10,698**	29,931
Bank loans	**12,279**	20,395
Lease liabilities	**3,094**	729
	52,541	74,846

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, cash and bank balances, trade payables, accruals and other payables, bank loans and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (mainly currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

Currency risk

The Group undertakes certain operating transactions in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management of the Group manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (trade and other receivables, cash and bank balances and pledged bank deposits) and monetary liabilities (accruals and other payables, trade payables, bank loans and lease liabilities) at the end of each reporting periods are as follows:

	Assets		**Liabilities**	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**28,215**	21,660	**38,666**	47,247
HKD	**510**	636	**3,621**	834
EUR	**65**	75	**–**	–

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Sensitivity analysis

The following tables detail the Group's sensitivity to a 5% (2020: 5%) increase and decrease in RMB against USD, HKD and EUR. 5% represents management's assessment of the reasonably possible change in the foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2020: 5%) change in foreign currency rate. A positive number below indicates a decrease in post-tax loss where RMB strengthens by 5% (2020: 5%) against the relevant currency. For a 5% (2020: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss for the year, and the amounts below would be negative.

	2021	2020
	RMB'000	RMB'000
USD	**436**	1,068
HKD	**130**	8
EUR	**(3)**	(3)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to pledged bank deposits and bank loans with variable interest rate (note 24). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and United States Prime Rate arising from the Group's United States dollar denominated borrowings.

The Group manages its interest rate exposure based on the interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility of the interest rate. The Group currently does not have interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

The following table details the interest rate profile of the Group's pledged bank deposits, cash and bank balances and bank loans at the end of the reporting period.

	2021		2020	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Bank deposits and bank loans				
Pledged bank deposits	0.10 to 0.15	3,234	0.15 to 0.35	3,305
Cash and bank balances	Nil to 0.30	26,652	Nil to 0.30	54,369
		29,886		57,674
Bank loans	3.25	(12,279)	3.43	(20,395)
		17,607		37,279

Sensitivity analysis

At 31 December 2021, it is estimated that a general increase of 100 basis points (2020: 100 basis points) in interest rates, with all other variables held constant, would decrease (2020: decrease) the Group's loss for the year by approximately RMB176,000 (2020: RMB373,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the pledged bank deposits, cash and bank balances and bank loans in existence at that date. The 100 basis point (2020: 100 basis points) increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group.

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

In respect of trade receivables and finance lease receivable, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted.

The Group measures the loss allowances for trade receivables and finance lease receivable at an amount equal to lifetime ECLs.

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

During the year ended 31 December 2021 and 2020, no loss allowances were recognised on the trade receivables.

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The movement in the allowance for impairment of trade receivables is set out below:

	2021 **RMB'000**	2020 RMB'000
At 1 January	**–**	15,048
Amount written off as uncollectible	**–**	(15,048)
At 31 December	**–**	–

The Group writes off trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over 3 years past due, whichever occurs earlier. As at 31 December 2021, no trade receivables (2020: RMB15,048,000) was written off.

For other receivables, the Group made periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The movement in the allowance for impairment of other receivables is set out below:

	2021 RMB'000	2020 RMB'000
At 1 January	28	279
Impairment losses reversed	–	(251)
At 31 December	28	28

In order to minimise credit risk in respect of pledged bank deposits and cash and bank balances, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its deposits and cash balances and condition are performed on each and every bank periodically. These evaluations focus on the credit ratings of its bank, and take into account information specific to the bank as well as pertaining to the economic environment in which the bank operates.

The Group has based on 12-month ECL as to whether there is significant increase in credit risk since initial recognition for measurement of ECL of pledged bank deposits and cash and bank balances.

The movement in the allowance for impairment of pledged bank deposits and cash and bank balances is set out below:

	2021 RMB'000	2020 RMB'000
At 1 January	–	258
Impairment losses reversed	–	(258)
At 31 December	–	–

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

Category	Description	Basis for recognising ECL	
		Trade receivables/ finance lease receivable	Other financial assets
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	Lifetime ECL (simplified approach)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

For the year ended 31 December 2021:

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables	Performing	Lifetime ECL (simplified approach)	2,500	–	2,500
Other receivables	Performing	12-month ECL	11,586	(28)	11,558
Pledged bank deposits	Performing	12-month ECL	3,234	–	3,234
Cash and bank balances	Performing	12-month ECL	26,652	–	26,652
				(28)	

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

For the year ended 31 December 2020:

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Finance lease receivable	Performing	Lifetime ECL (simplified approach)	194	–	194
Other receivables	Performing	12-month ECL	851	(28)	823
Pledged bank deposits	Performing	12-month ECL	3,305	–	3,305
Cash and bank balances	Performing	12-month ECL	54,369	–	54,369
				(28)	

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group's management monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank loans and ensures compliance with loan covenants.

The following tables detail 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.

	Weighted average effective interest rate	On demand or less than one year	More than one year and within two years	More than two years and within five years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2021						
Non-derivatives financial liabilities						
Accruals and other payables	–	26,470	–	–	26,470	26,470
Trade payables	–	10,698	–	–	10,698	10,698
Bank loans	3.25	12,299	–	–	12,299	12,279
Lease liabilities		1,341	1,307	569	3,217	3,094
		50,808	1,307	569	52,684	52,541

31. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average effective interest rate	On demand or less than one year	More than one year and within two years	More than two years and within five years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2020						
Non-derivatives financial liabilities						
Accruals and other payables	–	23,791	–	–	23,791	23,791
Trade payables	–	29,931	–	–	29,931	29,931
Bank loans	3.43	20,504	–	–	20,504	20,395
Lease liabilities		471	239	43	753	729
		74,697	239	43	74,979	74,846

Fair value of financial instruments

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

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows from financing activities.

	Bank loans RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2021	20,395	45	252	729	21,421
Changes from financing cash flows:					
New bank loans raised	86,325	–	–	–	86,325
Repayment of bank loans	(93,957)	–	–	–	(93,957)
Interest paid	–	(463)	–	–	(463)
Payment of lease liabilities	–	–	–	(917)	(917)
Interest paid on lease payment	–	–	–	(70)	(70)
Total changes from financing cash flows	(7,632)	(463)	–	(987)	(9,082)
Other changes:					
Interest cost incurred	–	461	–	70	531
New lease arrangement	–	–	–	3,581	3,581
Derecognition on lease liabilities	–	–	–	(299)	(299)
Exchange differences	(484)	–	–	–	(484)
Total other changes	(484)	461	–	3,352	3,329
At 31 December 2021	12,279	43	252	3,094	15,668

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Bank loans RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2020	20,874	113	252	1,619	22,858
Changes from financing cash flows:					
New bank loans raised	123,655	–	–	–	123,655
Repayment of bank loans	(122,724)	–	–	–	(122,724)
Interest paid	–	(700)	–	–	(700)
Payment of lease liabilities	–	–	–	(1,522)	(1,522)
Interest paid on lease payment	–	–	–	(55)	(55)
Total changes from financing cash flows	931	(700)	–	(1,577)	(1,346)
Other changes:					
Interest cost incurred	–	632	–	55	687
New lease arrangement	–	–	–	632	632
Exchange differences	(1,410)	–	–	–	(1,410)
Total other changes	(1,410)	632	–	687	(91)
At 31 December 2020	20,395	45	252	729	21,421

33. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank loans, net of cash and cash equivalents and the management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through issue of new shares and new debts.

34. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2021** **RMB'000**	2020 RMB'000
Non-current asset			
Investments in a subsidiary		**–***	–*
Current assets			
Amounts due from subsidiaries	(i)	**268,735**	276,971
Cash and bank balances		**260**	700
		268,995	277,671
Current liabilities			
Other payables		**252**	252
Amounts due to subsidiaries	(i)	**4,289**	4,289
		4,541	4,541
Net current assets		**264,454**	273,130
Net assets		**264,454**	273,130
Capital and reserves			
Share capital		**67,041**	67,041
Reserves	(ii)	**197,413**	206,089
Total equity		**264,454**	273,130

* The balance is less than RMB1,000.

34. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(i) The amounts are unsecured, non-interest bearing and repayable on demand.

(ii) Movements in reserves:

	RMB'000
At 1 January 2020	223,758
Loss and total comprehensive expense for the year	(17,669)
At 31 December 2020 and 1 January 2021	206,089
Loss and total comprehensive expense for the year	(8,676)
At 31 December 2021	197,413

35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2021, the Group entered into new lease arrangements for the use of office premises and warehouse for 3 years. On the commencement of the lease, the Group recognised right-of-use assets and lease liabilities of approximately RMB3,581,000.

During the year ended 31 December 2020, the Group entered into new lease arrangements in respect of office premises and equipment. Right-of-use assets and lease liabilities of approximately RMB632,000 were recognised at the commencement date of the leases.

During the year ended 31 December 2020, the Group entered into new arrangements in respect of subleasing of office premises. Finance lease receivable of approximately RMB221,000 were recognised at the commencement of the leases and right-of-use assets of approximately RMB145,000 was de-recognised, resulting in a gain of approximately RMB76,000.

36. SUBSIDIARIES

Details of the Company's subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company				Principal activities
			2021		2020		
			Direct	**Indirect**	Direct	Indirect	
			%	**%**	%	%	
Vital Mobile Limited	BVI, limited liability company	USD1	**100**	**–**	100	–	Investment holding
Vital Mobile (HK) Limited	Hong Kong, limited liability company	HK$1	**–**	**100**	–	100	Selling mobile and smart appliances
Benywave Wireless	PRC, wholly foreign-owned enterprise	RMB100,000,000	**–**	**100**	–	100	Selling AI and other equipment
Kerr Unit Inc	The United States of America, limited liability company	USD300,000	**–**	**100**	–	100	Developing new sales channels in the USA
Vital Mobile D.O.O.	Slovenia, limited liability company	EUR10,000	**–**	**100**	–	100	Inactive
Vital Financial Holdings Limited	Hong Kong, limited liability company	HK$1	**–**	**100**	–	100	Inactive
Greater Bay Vital Limited* 灣際維太科技(東莞)有限公司	PRC, wholly foreign-owned enterprise	RMB10,000,000	**–**	**51**	–	51	Developing lithium battery market

* The English name of the above company is for reference only.

None of the subsidiaries have non-controlling interests that are material to the Group.

None of the subsidiaries had issued any debt securities at the end of the years ended 31 December 2021 and 2020.

37. SHARE-BASED PAYMENT TRANSACTIONS

On 9 June 2015, the Company approved and adopted the restricted share unit scheme ("RSU Scheme"). The purpose of the RSU Scheme is to (i) recognise the contributions of the personnel to the Group or its business; (ii) retain them for the continual operation and development of the Group; and (iii) to attract suitable personnel for the development of the Group. The RSU Scheme shall be valid and effective for a term of 10 years commencing from 9 June 2015, subject to certain conditions and termination clause.

All shares were fully vested in 2018 and no additional shares were granted and outstanding for the years ended 31 December 2020 and 2021 in relation to the RSU Scheme granted by the Company.

FIVE YEARS FINANCIAL SUMMARY

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS					
Revenue	**672,651**	881,137	815,940	911,448	196,142
(Loss) profit before tax	**(20,567)**	(97,610)	(5,574)	14,549	(107,729)
Income tax expense	**–**	–	–	–	(1,977)
(Loss) profit and total comprehensive (expense) income for the year attributable to equity holders of the Company	**(20,567)**	(97,610)	(5,574)	14,549	(109,706)

	As at 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**640,560**	710,600	750,467	881,167	916,546
Total liabilities	**(98,908)**	(148,381)	(90,638)	(140,764)	(186,994)
Net assets	**541,652**	562,219	659,829	740,403	729,552
Equity attributable to owners of the Company	**541,699**	562,204	659,829	740,403	729,552

Vital Innovations Holdings Limited
維太創科控股有限公司