FOUNDER HOLDINGS LIMITED
方正控股有限公司

*(Incorporated in Bermuda with limited liability)*

Stock Code: 00418

# ANNUAL REPORT 2022

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive directors**

Mr Cheung Shuen Lung *(Chairman)*
Mr Shao Xing *(President)*
Mr Qi Zi Xin
Mr Hu Bin
Mr Zhang Jian Guo
Ms Wu Jing

**Independent non-executive directors**

Mr Chan Chung Kik, Lewis
Mr Lai Nga Ming, Edmund

## COMMITTEES

**Audit Committee**

Mr Chan Chung Kik, Lewis *(Chairman)*
Mr Lai Nga Ming, Edmund

**Remuneration Committee**

Mr Lai Nga Ming, Edmund *(Chairman)*
Mr Cheung Shuen Lung

**Nomination Committee**

Mr Cheung Shuen Lung *(Chairman)*
Mr Chan Chung Kik, Lewis
Mr Lai Nga Ming, Edmund

## COMPANY SECRETARY

Ms Cheang Yee Wah Eva

## AUTHORISED REPRESENTATIVES

Mr Cheung Shuen Lung
Mr Shao Xing

## AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

## LEGAL ADVISERS

Freshfields Bruckhaus Deringer LLP

## REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1408, 14th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

## SHARE REGISTRARS AND TRANSFER OFFICE

**Principal registrar**

MUFG Fund Services (Bermuda) Limited
4th floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

**Hong Kong branch share registrar and transfer office**

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

## LISTING INFORMATION

Main board of The Stock Exchange of Hong Kong Limited
Stock code: 00418
Board lot: 2,000 shares

## COMPANY WEBSITE

www.irasia.com/listco/hk/founder

# FINANCIAL HIGHLIGHTS

| | 2022 HK$'million | 2021 HK$'million | +/(-) Change |
|---|---|---|---|
| **FINANCIAL PERFORMANCE** | | | |
| Revenue | **958** | 1,074 | (10.8%) |
| Gross profit margin (%) | **51.2%** | 48.0% | |
| Profit attributable to owners of the parent | **35** | 43 | (18.6%) |
| Net profit margin (%) | **3.7%** | 4.0% | |
| **KEY FINANCIAL INDICATORS** | | | |
| Cash and cash equivalents | **733** | 599 | 22.4% |
| Net current assets | **690** | 549 | 25.7% |
| Total assets | **1,484** | 1,567 | (5.3%) |
| Total liabilities | **434** | 473 | (8.2%) |
| Equity attributable to owners of the parent | **1,050** | 1,093 | (3.9%) |
| Current ratio (times) | **2.78** | 2.31 | |
| Gearing ratio | **0.4%** | 0.5% | |
| Basic earnings per share (HK cents) | **2.9** | 3.6 | |

# MANAGEMENT DISCUSSION AND ANALYSIS

## PERFORMANCE

The Group reported a profit for the year ended 31 December 2022 of approximately HK$34.8 million (year ended 31 December 2021: HK$43.5 million). The Group's turnover for the current year decreased by 10.8% to HK$957.6 million (year ended 31 December 2021: HK$1,073.8 million) due to the temporary shutdown of certain factories, disruptions in logistics, delay in execution and performance of certain sales contracts, and reduction in the demand for font library, media and printing products under the impact of COVID-19 pandemic and the relevant restrictive measures during the year ended 31 December 2022. Gross profit for the current year decreased by 4.9% to HK$489.9 million compared with last year's HK$515.1 million. Gross profit ratio increased from 48.0% for the last year to 51.2% for the current year as a result of increase in proportion of sales of font library business with higher gross profit margin.

The decline in profit for the year was mainly the net results of:

a. a decrease in the gross profit by 4.9% to approximately HK$489.9 million (year ended 31 December 2021: HK$515.1 million);

b. a decrease in other income and gains by 27.8% to HK$53.7 million (year ended 31 December 2021: HK$74.3 million) attributable to the decrease in government grants received for the sale of software approved by the PRC tax authority and the development of software in Mainland China as a result of decrease in sales of software, decrease in foreign exchange gains and decrease in fair value gains on investment properties;

c. a decrease in total selling and distribution expenses, administrative expenses and other operating expenses by 28.8% to HK$388.7 million (year ended 31 December 2021: HK$546.1 million) as a result of (i) one-off gain on reversal of the provision arising from impairment of entrusted loan to Peking University Founder Group Company Limited; and (ii) the decrease in operating expenses along with the decrease in revenue during the year; and

d. an increase in income tax expense to HK$119.5 million (year ended 31 December 2021: income tax credit of HK$0.3 million) attributable to reversal of deferred tax assets arising from impairment of assets.

Basic and diluted earnings per share for the year was HK2.9 cents (year ended 31 December 2021: HK3.6 cents).

# OPERATING REVIEW AND PROSPECTS

## Operating Review

### *Font Library Business*

In April 2022, an announcement is jointly published by National Press and Publication Administration, National Radio and Television Administration, requesting standardized use of Chinese characters and reject ugly fonts. Meanwhile, with increasingly intense competition in the industry, new font design companies and individual font designers came into the font library market one after another. In order to meet the ever-changing demand for fonts across all sectors of society and to cope with fierce domestic and overseas competition, FounderType (方正字庫) has made a number of attempts in terms of marketing methods:

1) Font design aspect: Actively respond to the national initiative of "Standardizing the use of Chinese characters", and take the development of classical calligraphy of past dynasties as a major focus. According to the planning, Wang Xizhi-style Semi-cursive Script Font (王羲之行書), Ouyang Xun-style Regular Script Font (歐陽詢楷書), Mao Gongding-style Golden Script Font (毛公鼎金文), Ma Wangdui-style Silk Script Font (馬王堆帛書), Propriety stele-style Clerical Script Font (禮器碑隸書), Ouyang Zhong-style Stone Semi-cursive Script Font (歐陽中石行書), etc., will be developed in "Exquisite Chinese Font Library Project (中華精品字庫工程)". Based on our analysis of industry trends, we released several high-quality fonts with different style as our key products, which included the "Chinese Regular-style Script Font (漢文正楷)", "Grassland-style Font (草原體)", "Carved Song-style Font (雕版宋)", "Slogan Style Font (標語體)", "Majestic Style Font (威武體)", "Yun fluid-style Font (雲流體)", "Suhei-style Font (速黑)", and "Yashi Song-style Font (雅士宋)". And the classical fonts such as "Xingkai-style Font (行楷)", "Elegance Song-style Font (風雅宋)", "Yue Song-style Font of Qing Dynasty engraved version (清刻本悦宋)", "Beauty-style Font in the Song Dynasty engraved version (宋刻本秀楷)", "Liu Gongquan-style Regular Script Font (柳公權楷書)", and "Twittering Song-Style Font (呢喃宋)" have been expanded into family font system. Throughout 2022, we added a total of 317 Chinese fonts to our product portfolio. In addition, we have launched 8 braille fonts, including FZ MangWen-style, "Founder Braille Lanting Black Pro family-style (方正盲文蘭亭黑Pro家族)", "Founder Braille Lanting Round family-style (方正盲文蘭亭圓家族)", hoping to provide convenience for information communication to visually impaired people through barrier-free fonts design, and to transmit care and love through fonts.

   At the same time, the customized font service of FounderType has been recognized by more and more customers. Throughout 2022, the customized fonts created by customization team of FounderType for 16 clients in different fields such as New Media Center of Xinhua News, abC Art Book Exhibition, Midea Group, China Academy of Art, Alibaba Health Pharmacy, Hongqi, PICO, Honor, etc. have been released successively.

2) Font design technology aspect: To ensure font quality and improve design efficiency, we continued to promote the use of artificial intelligence-aided font design technology in our major design works, such as the "Exquisite Chinese Font Library Project (中華精品字庫工程)" and other font customization projects. Keeping pace with the global technology trend, we further strengthened the research of variable font technology and actively apply variable font technology to meet the needs of high-end clients.

3) Marketing and service aspect: On the basis of consolidating and expanding the cooperation with major corporate clients, we continued to scale up targeted marketing and increased collaboration with design companies and advertising firms. For uncommon words in the names of people or places, we continuously provided the "Founder Demographic Information Font Library Solution (方正人口信息字庫解決方案)" to financial and social security institutions. The promotion of "Font + (字加)" client base has been strengthened, and membership services have been launched for the designer group. In addition, we continued to push forward the development of the comprehensive three-in-one service system comprising the official website of FounderType, "Font + (字加)" mobile APP and "Font + (字加)" PC client end.

4) Promotion aspect: Due to the impact of the COVID-19 epidemic, the focus of promotion has been shifted online, focusing on the promotion of new font products and customized fonts. With our actively online live broadcast as planned, we held 17 live broadcasts and rebroadcast events on the video channel of FounderType and the platform of Bilibili throughout 2022. Combining offline and online means, we successfully held the "Founder Font Design Conference 2022 and the Award Ceremony of the 11th Founder Award Design Competition (方正2022字體設計大會暨第十一屆「方正獎」設計大賽頒獎典禮)", where hundreds of thousands of viewers witnessed our annual celebration. Furthermore, we actively tried the new forms of promotion, and successfully complete the joint promotion with "Shiguang Plum Wine (時光梅酒)", "Ramen Talk (拉麵説)", "Federal Walk (聯邦走馬)" and other online celebrity brands. Through the wonderful appearances in the "abC Art Book Exhibition (abC藝術書展)", "Alibaba U Design Week (阿里巴巴U設計周)", "CUBE Conference of ZCOOL (站酷CUBE大會)", "the Character Design Exhibition (字生態設計展)" and other activities, the charm of font and brand strength have been fully demonstrated. Apart from that, we actively participated in international well-known design competitions and won awards in Tokyo TDC and New York TDC, thereby enhanced the influence of FounderType in the field of international design sector.

The above measures not only enhanced the professional brand image and industry-leading position of FounderType, but also raised the public awareness of young and internationalization image of FounderType. This enabled FounderType to lay a solid foundation for the future and long-term development.

***Printing Business***

The theme of the development of China's printing industry in 2022 was to focus on the 3 aspects including exhibition platform, market players and digital empowerment, in order to implement the tasks and fulfilling the requirements put forward in the subject planning of "The 14th Five-Year" Plan for the development of printing and distribution. It promoted the implementation of new development concepts to the printing and distribution industry, thus to build a new development pattern, so as to achieve high-quality development. The core work of 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technical Co., Ltd*) ("Founder EasiPrint"), a wholly-owned subsidiary of the Company, is to closely revolve around the "Concept of market-oriented with digital empowerment". We innovate the printing industry with digital technology, and continue to lead the upgrading and substitution of ink-jet printing technology for traditional offset printing. We also promote the application of digital technology in the field of publishing and commercial printing to upgrade and transform the production process and technique, so as to lay a solid foundation of business mode for network distribution, new book retailing combined with the Internet. The 20th National Congress of the Communist Party of China was successfully held. Founder's printing software and hardware systems were widely deployed in key organs and printing units, effectively ensuring the safe and stable production of various important documents of the National Congress.

1) Sales aspect: In 2022, the national epidemic prevention and control policy continued to be strengthened, resulting in a decline in the overall business volume of the publishing and printing industry, and a large number of cooperative printing enterprises were in a state of intermittent shutdown, which also led to a decline in the sales of series of Founder EagleJet Inkjet Printers, the overall market share still remained above 50%. However, after the official launch of Founder 1200dpi High-definition Rotary Inkjet Printer in September, the printing quality of the device has been improved to the same or better level with traditional offset printing, therefore the business adaptability has also been wider, which has also led to the increase of new contracts of color inkjet printers in the fourth quarter of 2022. At present, the market's attention towards inkjet printing device has been rekindled, which has laid a good foundation for business development in 2023.

2) Aspect of product research and development and background management: In 2022, although the external environment was relatively challenging, the investment in technology research and development for Founder EasiPrint did not slow down. This year was the year that Founder inkjet products were developed and launched with the largest number of model. Founder EagleJet P6600c HD (1200 DPI) Color HD Inkjet Rotary Printer successfully completed the stage of user testing, and launched for promotion and sales nationwide after the successful application sharing conference in September. Founder S330 series Single Sheet Fed Inkjet Printer has also successfully completed the stage of user testing and established a relatively comprehensive agent selling system, which is expected to contribute to the overall performance of Founder EasiPrint in 2023. Founder EagleJet VS3000 High-speed Inkjet Printing System also completed its research and development in the second quarter, and rapidly achieved sales orders. At present, the contracts of current year have been finished for acceptance check, and this series of products are gradually matured, lifting its competitiveness constantly. Meanwhile, the annual new signed contracts of Founder Yunshu Software successfully exceeded RMB10 million, and most of the contracts in 2022 were successfully carried out. At the end of 2022, the development of core printing process software, Founder Changliu 7.0 software, was completed and is expected to be officially launched in 2023. Simultaneously, we seized the time period when the business rhythm slows down, we have optimized the operation efficiency by destocking compared.

3) Marketing aspect: At the beginning of 2022, the project of "R&D and industrialization of key technologies of Founder EagleJet P-series Single/Double Color Book Inkjet Printing Equipment (方正桀鷹P系列單／雙色書刊噴墨印刷設備關鍵技術研發與產業化)" won the second prize of the 16th Bisheng Printing Technology Progress Award (第十六屆畢昇印刷科技進步二等獎) (the first prize was vacant), showing that our inkjet technology was once again recognized by the industry. The Standardization Administration of the P.R.C of State Administration for Market Regulation has published a number of important standards, including No.GB/T 41975-2022 "Digital Inkjet Printer for Books and Periodicals (《書刊噴墨數字印刷機》)" (the "Standard"). Founder Electronics is the leading drafting institute of this standard. The introduction of the Standard filled the gap for the standard of digital printing equipment products in the field of book publishing, provides an authoritative and technical basis for corporate production and user selection, and will further promote the wider application of inkjet printing technology in the field of book publishing in the future. Affected by the COVID-19 epidemic, offline market activities were basically unable to be held in domestic large and medium-sized cities in China in 2022. When the COVID-19 epidemic was relatively mitigated in September, we held the "Sharing meeting of Founder EagleJet High-definition Inkjet Digital Printer application and sharing meeting of new technology for book production (方正桀鷹高清噴墨數字印刷機應用分享會暨圖書生產新技術分享會)" to show the product advantages of Founder EagleJet High-definition Inkjet Digital Printer to printing factories and publishers through users case sharing, product application sharing, and on-site visit to printing factory. We also held two promotional conferences for "Founder Yunshu Electronic Blue Paper Press Conference (方正雲舒電子藍紙發佈會)" which achieved good market results. In addition, in view of the difficulty in holding offline meetings, the promotion was carried out through the modes of continuous online live broadcast sharing, Douyin/official account of new media communication, aiming at the newly released software and hardware products, including the products of "Founder Changyi Intelligent Monitoring System (方正暢易智能監測系統)", "Founder EagleJet S330 Single Sheet Fed Inkjet Printer (方正桀鷹S330單張紙噴墨印刷機)", "Founder Changliu Digitalization for Workflow 7.0 (方正暢流數字化工作流程7.0)". These were promoted through online announcement, with warm-up publicity on official account, video account and Douyin account simultaneously, which gained tens of thousands of viewers. The publicity of Founder EagleJet P6600C HD Color High-definition Inkjet Rotary Printer has received thousands of inquiries and a large number of user attentions on the platforms such as Douyin, official account of WeChat, etc.

***Media Business***

In terms of macro policy, focusing on media integration, in the first half of 2022, the Publicity Department of the CPC Central Committee, the Ministry of Finance and National Radio and Television Administration jointly issued the "Notice on the implementation of plan for promoting the development of in-depth integration of municipal level media" (《推進地市級媒體加快深度融合發展實施方案的通知》) (the "Notice"), selecting 60 pilot units for the construction of municipal integrated media centers across the country, relying on municipal level media units such as local newspapers and radio stations to carry out integration for pilot projects, and establishing municipal level integrated media centers. The Notice requires that the level of municipal integrated media to be at an important public position for CPC's opinion and ruling resources, and play an irreplaceable role in disseminating the party's voice, guiding and serving the people. We should focus on integrated development, take the Internet as the main platform, promote the intensive and digital transformation of the collection and editing process, optimize the allocation of collection and editing resources and forces, establish a new collection and editing platform with unified command and scheduling. It aims at the integration and application of multiple technologies, and the adaptation to multi-interface news production, so as to realize the one-stop collection, multiple generation, and all media dissemination of news information. We should build a new communication platform, grasp the mobile trend, stick to local reality, build multiple communication channels, build a variety of platform terminals, develop a variety of communication forms, and form a distinctive, wide coverage, three-dimensional and rapid all-rounded media communication matrix. We should focus on client base establishment, optimize account layout, make full use of mobile communication technology, strengthen visible presentation, interactive communication, accurate pushing, and enhance immersive experience and user stickiness. We should also strengthen the support of advanced technology, utilize 5G, big data, cloud computing, artificial intelligence, blockchain and other new technologies, to strengthen the database infrastructure for content and user, and improve the ability of data collection, storage, management, analysis and application. To promote vertical media connectivity, provincial technology platforms should expand capacity and improve functions, in order to provide technical support and operation and maintenance services for municipal and county-level integrated media centers within the province, and promote the interconnection of the integrated development of provincial, city, municipal and county-level media. The relevant platforms of the municipal integrated media center are constructed with reference to the main technical standards of the provincial technical platform and the county-level integrated media center, so as to achieve compatibility and full connectivity, and form a healthy development pattern of connectivity and business collaboration at the provincial, city, municipal and county levels, and to give full play to the crucial role of connecting the preceding and the following. The Notice will play an important role in promoting the deep integration of local and municipal media and the infrastructure of media technology platform.

As to the integration of the publishing industry, the National Press and Publication Administration issued "The development plan for the publishing industry during the 14th Five-year" plan (《出版業"十四五"時期發展規劃》) (the "Plan") at the end of 2021, clarifying the guiding ideology, basic principles, objectives and requirements, key tasks and safeguard measures for the development of the publishing industry during the 14th Five-year plan period, and describing the development blueprint and work direction for the publishing industry. The Plan proposes to implement the digital strategy during the "14th Five-year" plan period of the publishing industry, strengthen the supporting and leading role of the new generation of information technology, guide publishing units to deepen understanding and systematic planning, effectively integrate various elements of resource, innovate publishing formats, communication methods and operation models, so as to promote the industry digitization and digital industrialization of the publishing industry, and vigorously improve the level of digitalization, digitization and intelligence of the industry. We will also promote the whole industry chain of publishing enabled by digital technology, supplement and strengthen the weakness in the digitalization of the publishing industry, and further promote the new publishing industry that integrated by traditional publishing and digital business. Highlight the important role of scientific and technological innovation in promoting the digital transformation and upgrading of the publishing industry and achieving deep integrated development, we vigorously promote the application of 5G, big data, cloud computing, artificial intelligence, blockchain, Internet of things, virtual reality and augmented reality in the publishing field. In April 2022, the Publicity Department of the CPC Central Committee issued "The implementation opinions on promoting the deep integration and development of publishing" (《關於推動出版深度融合發展的實施意見》). The opinions focus on accelerating the deep integration and development of publishing, building a new publishing and communication system in the digital era, adhering to the general idea of combining systematic promotion with demonstration and guidance, and put forward 20 main measures from 6 aspects: strategic planning, content construction, technical support, key projects, talent team, and security system. It can make a comprehensive deployment and put forward clear requirements for the goals, directions, paths and measures of the integrated development of publishing in the future. These policies will greatly promote the digital transformation of the publishing industry and establish a new system of integrated content with collaborative production and dissemination.

1) Product and solution:

For in-depth media integration: To better facilitate the application of mobile network, big data, artificial intelligence, 5G and other advanced and emerging technologies in in-depth integration and development of media, Founder Electronics launched the "Founder Solution for Hyper-integration of Media 3.0 (方正超融合媒體解決方法V3.0)" and constructed a new generation of "Founder Skylark Cloud Media Integration Platform (方正雲雀融媒體平台)" after upgrade and optimization. It focused on the research and development of the data middle platform and AI middle platform by adopting a cloud computing-based and containerized microservice structure to build the new generation of supporting platforms for media integration technologies. At the same time, it continuously improved the intelligence and video-oriented capabilities of various products, such as Founder all-rounded media interview and compilation and media cloud through a component-based research and development model with fast upgrades, so as to help with the development of smart media and the construction of the technology platform of the "radio integration" municipal-level media center. "Founder Solution for Hyper-integration of Media 3.0" realized not only the integration of media businesses, management, users and data, but also the optimization of new mobile media platforms and mobilization of core content creation businesses by adhering to our strategy that takes mobile media as the priority. Meanwhile, the solution strengthened and optimized the abilities of comprehensive and integrated production, comprehensive planning and interview, comprehensive compilation and editing and distribution from various ends for audios, videos and new media. It could help with the digitalization and intelligence of different application scenarios, including planning, interview, compilation, editing, publishing and distribution, through the data middle platform and AI middle platform.

For the publishing business: Founder Electronics has stepped up its efforts in the research and development of the new generation of the digital joint compilation system, covering technologies and software products for joint compilation, smart review, XML automatic typesetting, knowledge service and content production. In 2022, a collaborative compilation platform based on SaaS service mode was developed and launched for the book publishing market, with providing cloud services for small and medium-sized publishing enterprises. A new generation of data-driven submission and review system was developed and launched for the market of scientific and technological journals. Smart Review Version 4.0 (智能審校4.0版本) was released for media publishing, and pan-media and pan-publishing market.

2) Business model:

We are committed to actively promoting the transformation from software solution towards authorization service, SaaS service, software service and data service. In 2022, the proportion in relation to the service-oriented business accounted for 38%. Founder Smart Review SaaS Cloud service have achieved more than 3,668 institutional users registered, among them, there are more than 1,000 charging institutional users. At present, there are more than 400 publishing companies, 600 newspapers, 1,100 party journals and academic journals that use Founder Smart Review. Xinkong Cloud Pan-media Integration Platform (新空雲泛媒體一體化平台) serves nearly 300 local media and industry media customers. Founder Intelligence New Media Big Data SaaS service (方正智新媒體大數據SaaS服務) serves more than 100 media customers. The business model has gradually changed from sale of product solution project to product solution and authorization, SaaS services, software services, data services and other collaborative business models.

3) Marketing:

In the media market, on the basis of consolidating the central media, provincial and municipal media as well as industrial media markets, we increased the expansion to the pan-media markets such as government enterprises, colleges and universities. In 2022, Founder Electronics reached new cooperation with central-level, provincial-level clients such as Xinhuanet, Yangcheng Evening News, Shaanxi Daily Media Group, Yunnan Daily Newspaper Group, Ningxia Daily Newspaper Group, Tibet daily, Shanghai Education Press Headquarters, Qingdao Daily Newspaper Group, etc. in the media market. At the same time, in 2022, new media construction projects, namely "Integrated Media Center for newspaper and broadcast station" jointly operated by Yinchuan News Media Center (Group), Hohhot Radio and Television Station, Handan News Media Center (Group), Wuhu News and Media Center, Jiaxing Media Center and other municipal-level integrated media centers were also carried out. These clients are the pilot units of 60 municipal integrated media centers selected by the Publicity Department of the CPC Central Committee nationwide. In addition, the State Grid News, Media Center of Qitaihe Mining Group, Minzu University of China, Fujian Agriculture and Forestry University, Xiamen Ocean Vocational College, Xizang Minzu University, Hebei institute of Communications, Shenzhen Technician College* and other enterprise integrated media as well as university integrated media projects have been carried out. Benchmark cases have been set in the central media, provincial media, municipal media, industry media, enterprise integrated media, university integrated media, district and county integrated media, New media of Party journal and other market segments. It is comprehensively promoting the deep integration of mainstream media. Three academic papers of Founder Electronics had won the third prize of excellent thesis of the 2022 "News, Science and Technology Academic Paper Award (新聞科技論文)" 2022 in the Annual Academic Conference 2022 and the Talent Award and Excellent Academic Paper Award Ceremony of "Wang Xuan News, Science and Technology Award (王選新聞科學技術獎)" which is held by 4th representative assembly of 7th CAPTCN. More than ten integrated media projects participated by Founder Electronics were selected into the "Excellent application (用得好)" case base of China Newspaper Media Integration 2022. Founder Electronics has been recognized by users and media industry constantly, leading the development of the industry.

In the publishing market, in 2022, we entered into agreements with Jizhi platform of Hebei Publishing and Media Network, All-rounded Media Resource Library and Digital Production Management Platform for secure publishing of books and periodicals of Beijing Publishing Group, the Digital Production Management platform for secure publishing of books and periodicals of Higher Education Press, the Knowledge Service Platform of China Petrochemical Press Co. Ltd, the Knowledge Service Platform of Economy & Management Publishing House, the Collaborative Compilation Platform of China Quality and Standards Publishing & Media Co., Ltd, the Collaborative Compilation Platform of Chongqing University Press, the Resource Database of Guangxi Normal University Press Group Co., Ltd, the Knowledge Service Platform of Liaoning People's Publishing House, and the Collaborative Compilation Platform of Shaanxi People's Publishing House. At the China Digital Economy Innovation and Development Conference 2022 (二零二二中國數字經濟創新發展大會), "Founder Shuchang Collaborative Compilation System (方正書暢協同編纂系統)" was successfully selected as the "Outstanding Cases of Enterprise Digital Transformation 2022 (2022年企業數位化轉型優秀案例)". Founder Smart Auxiliary Review system (方正智能輔助審校系統) was successfully selected into the Storage Project List of the Media Integration Innovative Technology and Service Application 2022 and Excellent Project List of the Media integration Innovation Technology and Service Application 2022.

In the academic journal market, Founder Electronics has continuously built and upgraded the "Founder Hongyun Academic Publishing Cloud Service Platform (方正鴻雲學術出版雲服務平台)" by using artificial intelligence, big data, cloud computing and other technologies, serving nearly 800 users of journal publishing. The proposed manuscript collection and editing system has been first tried and used by seed users. Furthermore, Founder Electronics continues to cooperate with academic journal clusters including Light Academic Publishing Center, journal cluster of Zhejiang University Press, journal cluster of Chinese Association of Chinese Medicine and other academic journals. We also carried out the cooperation in publishing and communication with single journals such as journal of "National Remote Sensing Bulletin (《遙感學報》)" and "Acta Polymerica Sinica (《高分子學報》)". In terms of data push service, Founder Electronics provides value-added data services for nearly 100 domestic journals. We also carried out business cooperation in developing middle platform for research and development with Chinese Medical Association Publishing House and carried out industrial extension and application projects such as the infrastructure of digital publishing platform with Central South University Press. In 2022, Founder Electronics continued to sign agreement with the China Association for Science and Technology for the construction project of "The International Digital Publishing Service Platform Sub Project of China Science and Technology Journal Excellence Action Plan – International Platform for Digital Production of Scientific and Technological Journals (中國科技期刊卓越行動計劃國際化數位出版服務平台子項目－科技期刊數位化生產國際平台)", which continued to provide technical service support for scientific and technological journals to move towards digitalization and internationalization. In August 2022, the 17th China Science and Technology Journal Development Forum, sponsored by the China Association for Science and Technology and the National Press and Publication Administration, was held in Hefei, Anhui Province. Founder Electronics took the lead in holding the "Special Forum on Digital Transformation and Integrated Development Platform Construction of Scientific and Technological Journals (科技期刊數字化轉型與融合發展平台建設專題論壇)". The forum included five activities, namely "Product Release of Digital Version Solutions for Scientific and Technological Journals (科技期刊數位出版解決方案產品發佈)", "Digital Transformation and Upgrading of Scientific and Technological Journals driven by New Technologies (新技術驅動科技期刊數字化轉型升級)", "Strategies for Promoting the Clustered Development of Scientific and Technological Journals through the Construction of Scientific and Technological Journals Platform (科技期刊平台建設推進科技期刊集群化發展的策略)", "Integrated Development of Industry, University and Research Funds in the Clusters Construction (集群化建設中實現產學研用金的融合發展)", and "Pioneers of Knowledge Mining and Knowledge Services for Scientific and Technological Journals (科技期刊知識挖掘與知識服務的先行者)", all enhanced the influence and discourse power of Founder Electronics in the field of scientific and technological journals.

## PROSPECTS

The management of the Group will closely monitor changes in the economy and IT market of the People's Republic of China (the "PRC"). The Group will continue the development of innovative solutions and provide our customers with more cost-effective products and solutions to meet our customers' demands for enhancing their competitiveness. In addition, the Group will closely monitor the performance of each business sector to achieve effective cost control and maximise shareholders' value.

## EMPLOYEES

The Group has developed its human resources policies and procedures based on performance and merit of employees. The Group ensures that the payments to its employees are competitive and the employees are rewarded based on their performance within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance. The Group maintained a share option scheme in place for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Group had not granted any share options to its eligible directors and employees during the current financial year.

As at 31 December 2022, the number of employees of the Group was 1,088 (31 December 2021: 1,208).

## FINANCIAL REVIEW

### Liquidity, financial resources and capital commitments

During the year, the Group generally financed its operations with internally generated resources. As at 31 December 2022, the Group had no interest-bearing bank borrowings (31 December 2021: Nil).

As at 31 December 2022, the Group recorded total assets of HK$1,483.7 million which were financed by liabilities of HK$433.7 million and equity of HK$1,050.0 million. The Group's net asset value per share as at 31 December 2022 amounted to HK$0.88 (31 December 2021: HK$0.91). The decrease in net asset value per share was due to net effect of profit, exchange differences arising from translation of foreign operations and revaluation deficit of land and buildings during the year.

The Group had total cash and bank balances (including pledged deposits and cash and cash equivalents) of HK$738.3 million as at 31 December 2022 (31 December 2021: HK$606.3 million). As at 31 December 2022, the Group's gearing ratio, measured by the ratio of total borrowings (including lease liabilities) to total shareholders' equity, was 0.4% (31 December 2021: 0.5%) while the Group's working capital ratio was 2.78 (31 December 2021: 2.31). The decrease in prepayments, deposits and other receivables by 21.7% to HK$55.6 million (31 December 2021: HK$71.0 million) was due to decrease in prepayments arising from less purchase during the year. The decrease in other payables and accruals by 6.3% to HK$256.2 million (31 December 2021: HK$273.5 million) was due to decrease in accrual of subcontracting fee of information products and software contracts.

As at 31 December 2022, the Group did not have any material capital expenditure commitments.

### Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong Dollars ("HKD"), RMB and United States Dollars ("U.S. dollars"). Surplus cash is generally placed in banks as short term deposits denominated in HKD, RMB and U.S. dollars.

### Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in Hong Kong and the PRC. For the operations in Hong Kong, most of the transactions are denominated in HKD and U.S. dollars. The exchange rate of U.S. dollars against HKD is relatively stable and the related currency exchange risk is considered minimal. For the operations in the PRC, most of the transactions are denominated in RMB. The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the PRC government. The Group has minimal exposure to exchange rate fluctuation. No financial instrument was used for hedging purposes. The Group will closely monitor the currency exchange risk of RMB in the near term as a result.

### Contracts

As at 31 December 2022, the major contracts in hand amounted to approximately HK$260.8 million (31 December 2021: HK$297.0 million), which are all expected to be completed within one year.

### Material acquisitions and disposals of subsidiaries, associates and joint ventures, and significant investments

The Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures, or significant investments during the year ended 31 December 2022.

### Charges on assets

As at 31 December 2022, the Group's investment properties in Hong Kong of approximately HK$71.5 million and bank deposits of approximately HK$5.0 million were pledged to banks to secure banking facilities granted.

### Future plans for material investments or capital assets

The Group did not have any concrete future plans for material investments or capital assets as at 31 December 2022. However, the Group always seeks for new investment opportunities in the software development and system integration business to broaden the revenue and profit base of the Group and enhance shareholders' value in the long term.

### Contingent liabilities

At 31 December 2022, the Group did not have any significant contingent liabilities.

* *For identification purpose only*

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company is firmly committed to the overall standards of corporate governance and has always recognized the importance of accountability and communication with its shareholders. The Company adopted all the code provisions of Corporate Governance Code (the "CG Code"), as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), as its own code on corporate governance practices.

In the opinion of the directors, the Company has fully complied with all the code provisions as set out in the CG Code throughout the year ended 31 December 2022.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. Upon being made specific enquiries by the Company, all directors of the Company confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2022.

## BOARD OF DIRECTORS

As at 31 December 2022, the board of directors of the Company (the "Board") comprises six executive directors and three independent non-executive directors. The executive directors are Mr Cheung Shuen Lung (Chairman), Mr Shao Xing (President), Mr Qi Zi Xin, Mr Hu Bin, Mr Zhang Jian Guo and Ms Wu Jing, and the independent non-executive directors are Mr Chan Chung Kik, Lewis, Mr Lau Ka Wing and Mr Lai Nga Ming, Edmund. To the best knowledge of the directors, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board. The biographical details of each director are disclosed on pages 56 to 57 of this Annual Report.

The Board oversees the Group's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls the operating and financial performance in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the management of the Company under the supervision of the executive directors. The functions and powers that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are the overall strategy of the Group, major acquisitions and disposals, major capital investments, dividend policy, significant changes in accounting policies, material contracts, appointment and retirement of directors, remuneration policy and other major operational and financial matters. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives. The directors of the Company have access to appropriate business documents and information about the Group on a timely basis. All the directors of the Company have access to the Company Secretary who is responsible for ensuring that the Board procedures, and related rules and regulations, are followed. Minutes of Board/Committee meetings are kept by the Company Secretary and are open for inspection by the directors of the Company. All directors and Board committees have recourse to external legal counsels and other professionals for independent advice at the Group's expense upon their request. Appropriate directors' liability insurance cover has also been arranged to indemnify the directors of the Company for liabilities arising out of corporate activities.

The Board held four regular Board meetings at approximately quarterly intervals during the year ended 31 December 2022. Additional Board meetings were held when necessary. Due notices and Board papers were given to all directors prior to the meetings in accordance with the Listing Rules and the CG Code.

The attendance record of each director at the Board meetings and general meeting during the year is as follows:

| Name of director | Board meetings attended/ Eligible to attend | Annual General meeting attended/ Eligible to attend |
|---|---|---|
| *Executive Directors* | | |
| Mr Cheung Shuen Lung *(Chairman)* | 4/4 | 1/1 |
| Mr Shao Xing | 4/4 | 1/1 |
| Mr Qi Zi Xin (appointed on 10 June 2022) | 3/3 | – |
| Mr Hu Bin | 4/4 | 0/1 |
| Mr Zhang Jian Guo (appointed on 10 June 2022) | 3/3 | – |
| Ms Wu Jing (appointed on 25 October 2022) | 1/1 | – |
| Professor Xiao Jian Guo (retired on 25 May 2022) | 1/1 | 0/1 |
| Ms Liao Hang (resigned on 25 October 2022) | 3/3 | 1/1 |
| *Independent Non-executive Directors* | | |
| Mr Chan Chung Kik, Lewis | 3/4 | 1/1 |
| Mr Lau Ka Wing | 4/4 | 1/1 |
| Mr Lai Nga Ming, Edmund | 4/4 | 1/1 |

There are also three Board committees under the Board, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee.

Each newly appointed director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operation and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

Directors' training is an ongoing process. During the year, directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each director to discharge their duties. In addition, all directors are encouraged to participate in continuous professional development trainings to develop and refresh their knowledge and skills. The Company updates the directors on the latest updates regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

All directors have participated in continuous professional development and have provided to the Company the records of the training they received during the year ended 31 December 2022. The individual training record of each director received for the year ended 31 December 2022 is summarised below:

| **Name of director** | **Briefings and updates on the business, operations and corporate governance matters** | **Attending seminars, workshops or self-study of materials relevant to the business or directors' duties** |
|---|---|---|
| *Executive Directors* | | |
| Mr Cheung Shuen Lung *(Chairman)* | ✓ | ✓ |
| Mr Shao Xing | ✓ | ✓ |
| Mr Qi Zi Xin (appointed on 10 June 2022) | ✓ | ✓ |
| Mr Hu Bin | ✓ | ✓ |
| Mr Zhang Jian Guo (appointed on 10 June 2022) | ✓ | ✓ |
| Ms Wu Jing (appointed on 25 October 2022) | ✓ | ✓ |
| Professor Xiao Jian Guo (retired on 25 May 2022) | ✓ | ✓ |
| Ms Liao Hang (resigned on 25 October 2022) | ✓ | ✓ |
| *Independent Non-executive Directors* | | |
| Mr Chan Chung Kik, Lewis | ✓ | ✓ |
| Mr Lau Ka Wing | ✓ | ✓ |
| Mr Lai Nga Ming, Edmund | ✓ | ✓ |

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code. The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices in compliance with legal and regulatory requirements, the compliance with the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## COMPLIANCE WITH THE LISTING RULES

### Non-compliances with Rules 3.10(1), 3.10(A), 3.21 and 3.25 of the Listing Rules

On 16 March 2023, Mr Lau Ka Wing resigned as an independent non-executive director of the Company ("INED") and ceased to be the member and chairman of the remuneration committee ("Remuneration Committee") and a member of the audit committee ("Audit Committee") of the Company (the "Resignation") due to his other business commitments. As a result, the Company failed to meet the requirements set out in (i) Rule 3.10(1) of the Listing Rules that the Company must have at least three INEDs; (ii) Rule 3.10(A) of the Listing Rules that the Company must appoint INEDs representing at least one-third of the Board; (iii) Rule 3.21 of the Listing Rules that the Audit Committee must comprise a minimum of three members; and (iv) Rule 3.25 of the Listing Rules that the Remuneration Committee must comprise a majority of INEDs.

The Company is in the process of identifying a suitable candidate to fill the abovementioned vacancies as soon as practicable, with the relevant appointment to be made within three months from the Resignation, in order to comply with the relevant requirements under the Listing Rules. The Company will make further announcement as and when appropriate.

## CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and the Chief Executive are separate and are not exercised by the same individual. Mr Cheung Shuen Lung is the Chairman of the Board. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. Mr Shao Xing is the President of the Company. The President is responsible for the day-to-day management of the Group's business. Their respective role and responsibilities are set out in writing which have been approved by the Board.

## NON-EXECUTIVE DIRECTORS

As at 31 December 2022, there are three non-executive directors, and all of them are independent. Each independent non-executive director has entered into a letter of appointment with the Company for a period of one year. Pursuant to the Bye-laws of the Company, one third of all the directors, including the non-executive directors, shall be subject to retirement by rotation at each annual general meeting.

All of the three independent non-executive directors have appropriate professional qualifications or accounting or related financial management expertise. This composition is in compliance with the requirement of Rule 3.10 of the Listing Rules. Each independent non-executive director has, pursuant to Rule 3.13 of the Listing Rules, provided an annual confirmation of his independence to the Company and the Company also considers them to be independent.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Board was established in 2005 with specific written terms of reference which deal clearly with its authorities and duties. The role and functions of this committee include formulating the remuneration policy, making recommendations to the Board on the remuneration packages of all executive directors and senior management, making recommendations to the Board on the remuneration of non-executive directors, reviewing and approving performance-based remuneration, and ensuring that no director or any of his/her associates is involved in deciding his/her own remuneration.

In 2022, the Remuneration Committee met once to review and discuss the remuneration policy for the directors of the Company and the remuneration packages of all directors of the Company. The Company's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice. For determining the level of fees paid to the directors, market rates and factors such as each director's workload and required commitment will be taken into account. No individual director will be involved in decisions relating to his/her own remuneration. The Remuneration Committee adopts the model of making recommendations to the Board on the remuneration packages of individual executive directors and senior management. Information relating to the remuneration of each director for 2022 is set out in Note 8 to the Company's 2022 Financial Statements.

The members of the Remuneration Committee during the year and their attendance record at the meeting are as follows:

| **Name of member** | | **Meeting attended/Eligible to attend** |
|---|---|---|
| Mr Lau Ka Wing *(Chairman)* | *(Independent non-executive director)* | 1/1 |
| Mr Cheung Shuen Lung | *(Executive director)* | 1/1 |
| Mr Lai Nga Ming, Edmund | *(Independent non-executive director)* | 1/1 |

## NOMINATION COMMITTEE

The Nomination Committee of the Board was established in 2012 with specific written terms of reference which deal clearly with its authorities and duties. Its terms of reference amended and adopted by the Board in December 2018 can be found on the Company's website (www.irasia.com/listco/hk/founder) and The Stock Exchange of Hong Kong Limited's website (www.hkexnews.hk). The role and functions of the Nomination Committee include determining the policy for the nomination of directors, setting out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence would be recommended to the Board for selection. Appointments of directors are first considered by the Nomination Committee and recommendations of the Nomination Committee are then put to the Board for decision. The Nomination Committee is also responsible for reviewing the structure, size and diversity of the board.

The Board Diversity Policy was adopted by the Board on 30 August 2013. In designing the Board's composition, the diversity of the Board has been considered from a number of aspects including, but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and length of services. Candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. The Nomination Committee is responsible for reviewing the Board Diversity Policy on an annual basis; and reviewing the measurable objectives that have been set for implementing the board Diversity Policy, and reviewing the progress on achieving the objectives.

Out of the nine directors comprising the board, one of them is women. The Company is of the view that gender diversity in respect of the Board has been achieved. Three of the nine directors are independent non-executive directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of age, cultural and educational background, professional expertise and skills. The Board endeavours to steer forward and ensure that the Board has a balance of skills, experience and diversity of aspects appropriate to the requirements of the Company's business, and is committed to improving gender diversity as and when suitable candidates are identified.

Of the 1,088 employees (including senior management) of the Group during the reporting period, in which 445 are female, representing 40.9% of all employees. Accordingly, the Company considers that gender diversity is also achieved in its workforce generally.

The nomination policy of directors of the Company was adopted by the Board on 28 December 2018. The policy sets out the procedures, process and criteria for identifying and recommending candidates for election to the Board.

### Selection Criteria

When evaluating and selecting candidates for directorships, the members of the Nomination Committee or the Board shall consider the following criteria:

(a) Character and integrity;

(b) Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategies;

(c) The Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board;

(d) Willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;

(e) In case of independent non-executive Directors, whether the candidates would be considered independent in accordance with the Listing Rules;

(f) In case of re-election, the overall contribution and service to the Company of the Director to be re-elected and the level of participation and performance on the Board and the other criteria set out in this section; and

(g) Such other perspectives appropriate to the Company's business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

### Nomination Procedures

(a) The Nomination Committee and/or the Board identifies potential candidates including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agencies and/or advisors. The Nomination Committee then develops a short list of candidates and agrees on proposed candidate(s);

(b) Proposed candidate(s) will be asked to submit the necessary personal information, biographical details, together with their written consent to be appointed as a director. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary;

(c) The Nomination Committee shall, upon receipt of the proposal on appointment of new director(s) and the personal information (or relevant details) of the proposed candidate(s), evaluate such candidate(s) based on the criteria as set out above to determine whether such candidate(s) is qualified for directorship;

(d) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship;

(e) If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);

(f) The secretary of the Nomination Committee shall convene a meeting of the Nomination Committee. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for re-election or election at a general meeting, the Nomination Committee shall make nominations or recommendations for the Board's consideration and the Board shall make recommendations to shareholders in respect of the proposed re-election or election of Director(s) at the general meeting;

(g) In order to provide information of the candidates nominated by the Board to stand for election or re-election at a general meeting, a circular will be sent to shareholders. The circular will set out the names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations including the Listing Rules, of the proposed candidates; and

(h) The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election or re-election at any general meeting.

In 2022, the Nomination Committee met once to review the structure, size and diversity of the Board, nomination procedure and the independence of the independent non-executive directors, and to recommend the Board on the appointment and reappointment of directors and the succession planning for directors.

The members of the Nomination Committee during the year and their attendance record at the meeting are as follows:

| **Name of member** | | **Meeting attended/Eligible to attend** |
|---|---|---|
| Mr Cheung Shuen Lung *(Chairman)* | *(Executive director)* | 1/1 |
| Mr Chan Chung Kik, Lewis | *(Independent non-executive director)* | 1/1 |
| Mr Lai Nga Ming, Edmund | *(Independent non-executive director)* | 1/1 |

## AUDIT COMMITTEE

The Audit Committee of the Board was established in 1998 in compliance with Rule 3.21 of the Listing Rules with specific written terms of reference which deal clearly with its authorities and duties. Its terms of reference amended and adopted by the Board in December 2018, can be found on the Company's website (www.irasia.com/listco/hk/founder) and The Stock Exchange of Hong Kong Limited's website (www.hkexnews.hk). The Audit Committee now solely comprises independent non-executive directors of the Company, namely, Mr Chan Chung Kik, Lewis (Chairman), Mr Lau Ka Wing and Mr Lai Nga Ming, Edmund. All the committee members possess appropriate professional accounting and financial qualifications.

The primary responsibilities of the Audit Committee include making recommendations to the Board on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, developing and implementing policy on the engagement of external auditors to provide non-audit services, monitoring the integrity of the financial statements and the reports of the Company, overseeing the Company's financial reporting system, risk management and internal control systems and developing and reviewing policies and practices or corporate governance.

In 2022, the Audit Committee met three times. During the meetings, the Audit Committee reviewed the reports from the independent auditors regarding their audit on annual financial statements, review on interim financial results, discussed the internal control of the Group, and met with the independent auditors.

The attendance report of the members of the Audit Committee at the meetings during the year are as follows:

| **Name of member** | | **Meetings attended/Eligible to attend** |
|---|---|---|
| Mr Chan Chung Kik, Lewis *(Chairman)* | *(Independent non-executive director)* | 3/3 |
| Mr Lau Ka Wing | *(Independent non-executive director)* | 3/3 |
| Mr Lai Nga Ming, Edmund | *(Independent non-executive director)* | 3/3 |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the ultimate responsibility to maintain appropriate and effective risk management and internal control systems for the Group to safeguard the interests of shareholders and the Group as a whole and to ensure strict compliance with relevant laws, rules and regulations. The Audit Committee is responsible for reviewing the effectiveness of the risk management and internal control systems and reporting to the Board.

The Group's risk management and internal control systems comprise a well established organisational structure and comprehensive policies and standards. Areas of responsibilities for each business and functional unit are clearly defined to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The Board also clarifies that the system is designed to manage, rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

During the year, the internal audit department has carried out an overview on the effectiveness of the risk management and internal control systems of the Group. Based on the risk-based approach, the internal audit department continuously review and monitor the sufficiency of the risk control measures of every business unit of the Group and to examine if relevant measures have been implemented. The procedures involve assuring the existence of related risks in the first place, then assessing the levels to which the potential risks are attributed based on the following two risk factors, i.e., the level of significance of the risk and the possibility of occurrence. No material internal control aspects of any significant problems were identified. With reference to the assessment of the internal audit department, both the Audit Committee and the Board conducted review of the risk management and internal control systems maintained by the Group including the financial, operational and compliance controls and risk management functions for the year ended 31 December 2022 and were satisfied that the risk management and internal control systems of the Group had functioned effectively and was adequate during the year.

## INSIDE INFORMATION DISCLOSURE POLICY

An Inside Information Policy was adopted by the Company which sets out guidelines to the directors of the Company, officers and all relevant employees of the Group to ensure inside information (as defined in the Listing Rules) (the "Inside Information") of the Group would be disseminated to the public in equal and timely manner in accordance with applicable laws and regulations. The Company also established Group Internal Notification Policies and Procedures for setting out guidelines for identification and notification of Inside Information and notifiable transactions (as defined in the Listing Rules). A whistleblowing policy was also adopted by the Group.

## AUDITORS' REMUNERATION

During the year, the remuneration in respect of audit and non-audit services provided by the Company's auditor, Ernst & Young, is summarised as follows:

| | HK$'000 |
|---|---|
| Statutory audit services | 2,702 |
| Non-audit services: | |
| Agreed-upon procedures on interim results | 422 |
| Agreed-upon procedures on continuing connected transactions | 53 |
| Compliance and tax advisory services | 94 |
| | 569 |
| Total | 3,271 |

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors of the Company acknowledge their responsibility for the preparation of the financial statements of the Group for the year ended 31 December 2022 which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis in accordance with the statutory requirements and applicable accounting standards. The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 66 to 69 of this Annual Report.

## COMPANY SECRETARY

Ms Cheang Yee Wah Eva ("Ms Cheang"), who is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, and the applicable laws, rules and regulations were followed, has been the company secretary of the Company since 11 May 2018. Ms Cheang has taken relevant professional trainings which are in compliance with Rule 3.29 of the Listing Rules for the year ended 31 December 2022.

## COMMUNICATION WITH SHAREHOLDERS

The Company affirms its commitment to maintaining a high degree of corporate transparency, communicating regularly with its shareholders and ensuring, in appropriate circumstances, the investment community at large being provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the shareholders to exercise their rights in an informed manner.

The Company's Annual General Meeting (the "AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Company's performance. Separate resolutions will be proposed for each substantially separate issue at the AGM. Directors of the Company, including the Chairmen of the Board and Board committees and Board committee members, and the Company's external auditor attended the 2022 AGM and were available to answer questions from shareholders.

Under the Listing Rules, all resolutions proposed at general meetings must be voted by poll except where the chairman of a general meeting, in good faith and in compliance with the Listing Rules, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Details of the poll procedures will be explained during the proceedings of general meetings. The poll results will be released and posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/founder).

To provide effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its Shareholders and maintains a website at www.irasia.com/listco/hk/founder. All the financial information and other disclosures including, inter alia, annual reports, interim reports, announcements, circulars, notices and Memorandum of Association and New Bye-Laws are available on the Company's website. The Board has reviewed its prevailing Shareholders' Communication Policy during the year, and believes the Shareholders' Communication Policy is still appropriate and effective.

Shareholders may direct their questions about their shareholdings to the Company's Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong or contact the Customer Service Hotline of the Company's Registrar at (852) 2862 8555. Shareholders may send their enquiries to the Board or the Company Secretary in written form to the head office and principal place of business in Hong Kong of the Company.

## THE SHAREHOLDERS' RIGHTS

### Convene a Special General Meeting

Pursuant to Section 74 of the Companies Act 1981 of Bermuda and Bye-law 62 of the Bye-laws of the Company, special general meetings shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within three months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner.

### Put forward proposals at shareholders' meetings

Shareholder(s) representing not less than one-twentieth (5%) of the total voting rights of all the shareholders of the Company or of not less than 100 shareholders of the Company may by requisition, at their own expense unless the Company otherwise resolves, to put forward proposals at general meetings of the Company pursuant to Clauses 79 and 80 of the Companies Act 1981 of Bermuda (as amended). A written notice to that effect signed by the shareholder(s) concerned together with a sum reasonably sufficient to meet the expenses in giving effect thereto must be deposited at the registered office of the Company not less than six weeks before the meeting for requisition(s) requiring notice of a resolution, or not less than one week before the meeting for any other requisition(s).

## COMPANY CULTURE

The Board plays a leading role in defining the purpose, values and strategies of the Company, and aligning them with the culture of the Company. The Board sets the tone and shapes the company culture of the Company, which is instilled and continuously reinforced by the core values of acting lawfully, ethically and responsibly across all levels of the Company. The Company endeavours to act responsibly and maintain accountability to its employees, shareholders, other stakeholders, as well as the community. The Company's purpose, values and strategies form the foundations of the culture of the Company, which adheres to strong ethical values and strives for sustainable development.

## DIVIDEND POLICY

Policy on Payment of Dividend of the Company is in place setting out the factors in determination of dividend payment of the Company, including results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Board may consider relevant from time to time. The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

## CONSTITUTIONAL DOCUMENTS

The Company did not make any changes in its constitutional documents during the year.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This Environmental, Social and Governance ("ESG") Report (the "Report") aims to describe the system construction and performances of Founder Holdings Limited (the "Company" or "Founder Electronics") and its subsidiaries (the "Group") in fulfilling environmental and social responsibilities. This Report is published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/founder).The Report describes the Group's ESG performances during the financial year from 1 January 2022 to 31 December 2022 (the "Year").

### Scope of reporting

The reporting scope of this ESG Report is discussed and confirmed by the senior management of the Group. This ESG Report covers the operating activities which are considered as material by the Group, including the operation of headquarter office and marketing campaigns of Founder Electronics. Founder Electronics is the Group's wholly-owned subsidiary with a headquarter office in Beijing, in which its business activities represent approximately 100% of the Group's total revenue.

### Reporting standard

This Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "Guide") as set out in Appendix 27 to the Listing Rules of the Stock Exchange on the basis of the four reporting principles (i.e. materiality, quantitative, balance and consistency).

Materiality: The Group reviews and defines the reporting scope based on the significance of different operations. Business units and operations with significant ESG impacts are disclosed in the report.

Quantitative: The Group presents quantitative environmental and social key performance indicators ("KPIs") as well as historical data in the report for comparison where applicable.

Balance: The Report aims to disclose data in an objective way, which aims to provide stakeholders with a balance overview of the Group's overall ESG performance.

Consistency: Unless otherwise stated, the Group adopts consistent methodologies and retrieves social and environmental KPIs from the Group's internal record system. The scope of reporting and KPIs are consistent with those of the previous report to allow meaningful comparison over time.

### Confirmation

As at the year ended 31 December 2022, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the Guide.

### Feedback

The Group welcomes stakeholders to provide their opinions and suggestions. You can provide valuable advice in respect of the ESG Report or the Group's performances in sustainable development at ir@founder.com.hk.

## BOARD STATEMENT ON ESG GOVERNANCE

The Group has established a sustainable corporate governance structure to ensure that the measures of sustainable development are integrated into the operations. The Group's corporate governance structure stipulates the responsibilities of the departments and subsidiaries, under the supervision of the Board of Directors (the "Board"), which has the overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

The Board reviews issues and policies related to the Group's sustainable development annually, make amendments to the policies in a timely manner and review and approve the Report.

## STAKEHOLDER ENGAGEMENT

The Group values our stakeholders and their views relating to its businesses and ESG issues. One of the key approaches is through stakeholder engagement, which enables two-way communication to receive valuable feedback and to act on improvement measures. The communication channels with respective stakeholder groups are highlighted as below:

| Stakeholders | Communication channels | Possible issues concerned |
|---|---|---|
| Shareholders and Investors | • General meeting and shareholders' meetings<br>• Financial reports, announcements and circulars<br>• Company's website<br>• Company hotline and email | • Business strategies and sustainability<br>• Financial performance<br>• Corporate governance |
| Customers | • Company hotline and email<br>• Business meetings | • Services quality and reliability<br>• Fair and reasonable pricing<br>• Customer information security |
| Employees | • Employee activities<br>• Training, seminars and workshops | • Training and development<br>• Occupational health and safety<br>• Employee remuneration<br>• Equal opportunity |
| Suppliers | • Business meetings | • Fair competition |
| The Public | • ESG Report<br>• Company hotline and email | • Investor relationship |

Intelligent consumption reduction, the use of resources in the headquarters office, staff training and social welfare are the most important factors for the Company in terms of environment, society and governance, so they constitute the important reporting divisions in this report. Other measures related to environment, energy and climate change will be reviewed and considered by the Company in the next annual report.

# I. ENVIRONMENTAL PROTECTION

The Group serves in the fields of printing, media, publishing, big data and fonts library and is committed to providing leading information processing technology, products, system solutions and value-added services to customers, enabling customers to experience an information technology life in the era of mobile Internet via different devices without time and space limitation. Apart from continuously enhancing business quality and providing value-added services to customers, the Group also recognises the importance of greater environmental stewardship and sustainable development of the community in order to ensure the holistic and harmonious development of our business alongside the environment and communities in which we operate. Throughout the past years, the Group has been actively fulfilling its corporate social responsibilities. It has a proven record in utilizing technology and combining comprehensive staff on-the-job training with its well-established governance system to actively reduce its overall impact on the environment from various aspects.

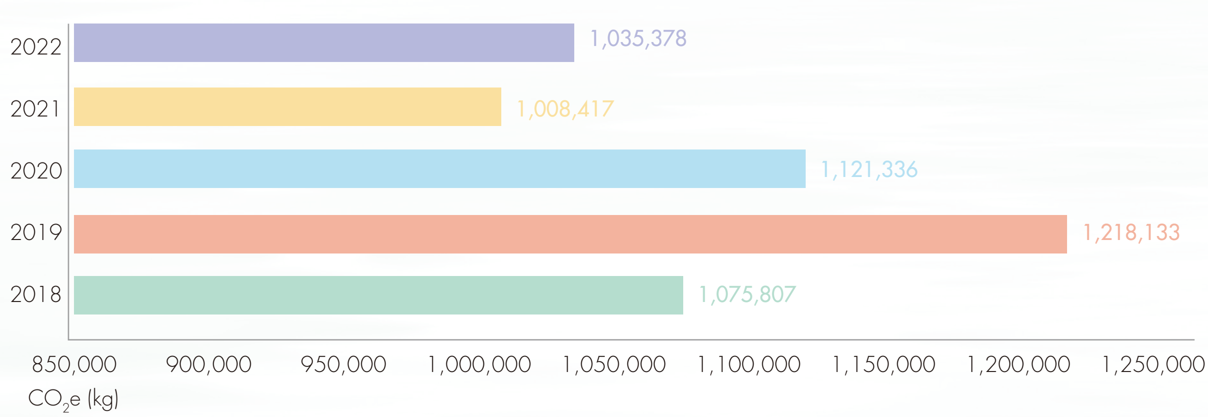
Due to the Group's office-based business nature, the Group does not cause a significant impact on the environment. The Group nevertheless continuously improves existing policies and incorporates new policies with the intention of mitigating potential direct and indirect negative environmental impacts arising from its business operations. Further details are included in the part of "Resource utilisation".

## 1. Carbon emission

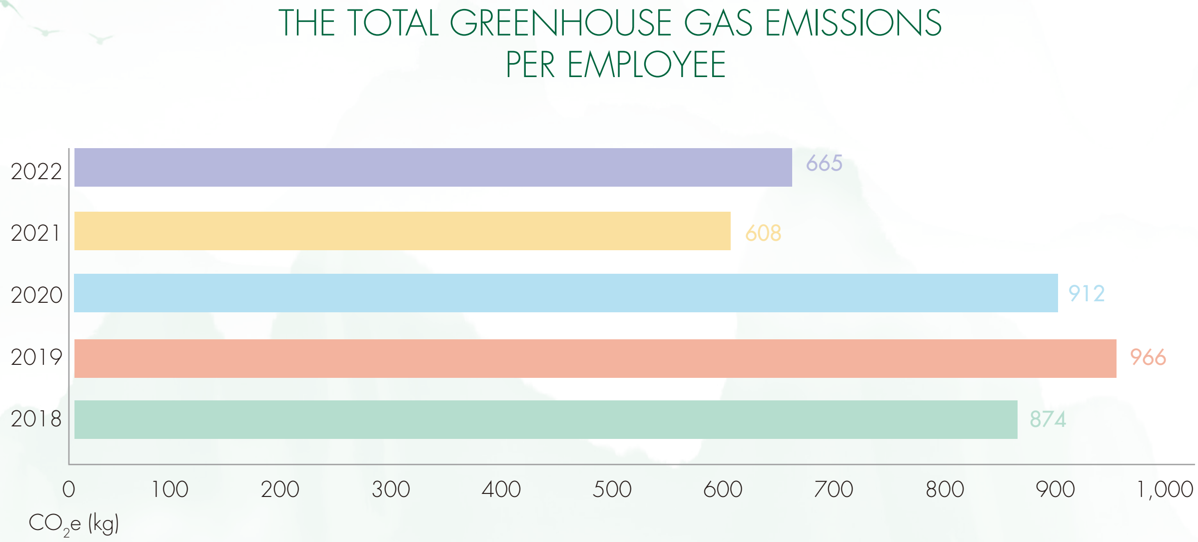
The Group comprehensively enhanced its corporate image on both the environment and the community aspects and actively responded to the challenges and impact of climate changes on the global economy. Starting from 2017, the Group discloses its carbon emission data every year and integrated energy conservation and emission reduction into its long-term plan, pursuant to which it has formulated corresponding carbon reduction measures to lower the impact of its total emission of greenhouse gases to the community and the environment. At Beijing Founder Electronics Co., Ltd. ("Founder Electronics"), the wholly-owned subsidiary of the Group, carbon emission was mainly resulted from energy consumption and electricity used in computers, printing systems, lighting systems and information technology ("IT") systems for its core media business as well as exhaust gas from commercial vehicles. As the major source of power generation in Beijing was coal burning, Founder Electronics has focused its work in relation to energy conservation and emission reduction by saving electricity and reducing consumption of resources with an aim to reduce the greenhouse gases generated from coal burning.

The total emission of greenhouse gases generated from purchased electricity for the year of Founder Electronics are as follows:

### TOTAL EMISSION OF GREENHOUSE GASES GENERATED FROM PURCHASED ELECTRICITY



## 1. Carbon emission *(continued)*




The continuous increasing trend of total emission of greenhouse gases generated from purchased electricity by year is mainly due to the increasing business volume of Founder Electronics and the appropriate overtime work of employees. The total greenhouse gas emissions per employee increased from approximately 608 kg in 2021 to approximately 665 kg in 2022 with a slightly increase. The Group will encourage employees to save electricity in accordance with the "Measurements for energy saving" in the "Resource utilization" section below.

## 2. Climate change

One of the major reasons for climate change which is global warming driven by human emissions of greenhouse gases has raised the public's concern for many years. The Group is aware of significant climate-related issues such as high temperature, typhoon, flooding, wildfire or other extreme weathers, have threatened the human lives and economic activities. Despite having only minimal direct emissions, our Group strives to reduce the greenhouse gases generated from our operations so as to relieve the climate change. The Group identifies the global warming issue and concerns about its impacts, and commits to reduce the emissions of greenhouse gases by encouraging our employees to switch off lights and electronic equipment when not in use, travel to work by public transportation and recycle the working papers.

## 3. Resource utilisation

The Group worked diligently to enhance the utilization rate of various materials and resources, including energy, water and paper, and strive to enhance the reutilization rate and recycling rate of resources and reduce the amount of waste produced so as to consistently implement its environmental protection concepts to all operational levels and production processes. Founder Electronics always exercises stringent control over its production process to minimize any hazardous or non-hazardous waste to be generated from the company's operation. By doing so, it has reduced waste from production, eased the pressure of waste handling of the community and enhanced the environmental standards of the company.

During the reporting period, the Company has no hazardous waste, and when disposing of harmless waste, the Company will select qualified waste-collection companies for the handling.

### *Reducing consumption by intelligent solution*

Given its leading position in the printing industry and in terms of modern media technology, Founder Electronics actively undertook its environmental mission and launched the innovative "Founder All-in-one Solution". The solution integrates printing and digital network and applies intelligent printing to the whole production process, including automatic review, analysis and categorization of orders as well as automatic allocation of necessary materials and assessment of the amount of consumables needed for the orders. The accurate data on actual volume of production and demand would enable more precise control over utilization of materials and thus realize printing on demand, resulting in significant decrease in both consumption of materials and unnecessary paper and improvement in production efficiency.

## 3. Resource utilisation *(continued)*

***Reducing waste by high-end digital printing technology***

The high-end digital inkjet printing technology developed by Founder Electronics can maximize the utilization rate of ink and reduce the amount of unnecessary unrecyclable waste with the use of recyclable toner cartridge and ink cartridge. Looking forward, Founder Electronics will put consistent efforts in development and innovation, improving its production process, and enhancing productivity with an aim to truly realise green production.

***Measurements for energy saving***

The Group focused on reducing various pollutants and proactively reduced the volume of waste generated and enhanced the utilization efficiency of resources through various methods.

*Light energy*

The Group reduces unnecessary lighting energy consumption; maximize the use of daylight and turn off the light of office rooms that are not being used; clean the lighting and lamps regularly to improve energy efficiencies; use lighting with high energy efficiencies (e.g. T5 fluorescent light and LED).

*Air conditioning resources*

The Group established policies on better use of air conditioning resources with the lowest temperature of air conditioner being set at 25.5℃ and turn off the air conditioner of office rooms that are not being used during the office hours. After work, all departments shall turn off the power supply of office equipment in time. Special email will be sent before every holiday to remind all employees to turn off the power supply of office equipment.

*Paper resources*

The Group promotes paperless office by using an electronic working system that replaces paper records and communicate through electronic technical equipment to reduce paper documentation.

*Printing resources*

The computers and printers are preset for double-sided printing and ink-saving mode; staff are reminded to print documents on both sides and the files to be printed may use thinner fonts and row spacing.

*Water resources*

To enhance the utilization efficiency of water resources, the Group can obtain the suitable water source steadily, lower the water pressure to the lowest possible level; install double flush toilets in the washroom; conduct leakage testing of concealed water pipes regularly and use the products with first-class water efficiency label.

*Information and communication technology equipment*

The information and communication technology equipment are completely turned off during non-office hours, and the computers are set to enter automatic standby and sleep mode when it is idle. A wireless network recorder is installed to monitor the temperature and humidity of the data center, so as to better regulate the energy consumption of air conditioning.

*Recycling and retrieve*

The headquarters office building of the Group is equipped with recycling boxes and facilities. Evaluation for the material consumption is needed when purchasing office supplies so as to avoid excessive inventory. The Group also reduces the purchase and use of disposable and non-recyclable products, such as purchasing recyclable toner boxes and ink cartridges.

**3. Resource utilisation** *(continued)*

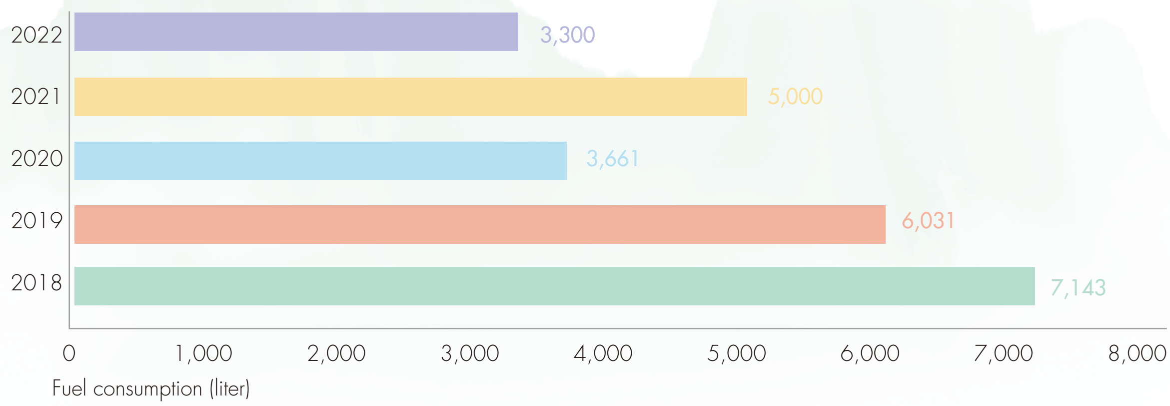
***Measurements for energy saving*** *(continued)*

*Staff commuting*

Employees are encouraged to share the use of cars and choose public transportation and green commuting to alleviate road burden and vehicle exhaust gas emissions.

Starting from 2017, the Group discloses its utilization of resources to the public every year, the specific details of recent 5 years are as follows:

THE TOTAL FUEL CONSUMPTION OF THE HEADQUARTERS' SELF-OWNED VEHICLES




The total fuel consumption of the headquarters self-owned vehicles in 2022 was approximately 3,300 liters, a decline of 34%, mainly due to the repeated COVID-19 epidemic and thus caused the reduction of business travel, as compared to 5,000 liters in 2021. As the total fuel consumption of headquarters' self-owned vehicles in this reporting year has reached a low level and has declined significantly year by year, the Group aims to maintain the current level in the next year.

| | **Category** | **Emission this year (kg)** |
|---|---|---|
| Exhaust gas | Sulphur oxides | 0.049 |
| | Nitrogen oxides | 32.7 |
| | Particulate matter | 3.1 |

| **Scope** | **GHG emission this year ($CO_2$-e kg)** |
|---|---|
| Scope 1: Direct GHG Emissions | 8,935.9 |
| Scope 2: Energy Indirect GHG Emissions | 714,332.2 |
| Scope 3: Other Indirect GHG Emissions | 183.2 |
| Total GHG emission | 723,451.3 |
| GHG intensity ($CO_2$-e kg/employee) | 664.9 |

### 3. Resource utilisation *(continued)*

Due to the business nature of the Company, the non-hazardous waste produced is immaterial data, the Company considers to try and to collect more data and improve the report scope in the future.

| | Category | Energy consumption of this year (1,000 kWh) |
|---|---|---|
| Energy use | Direct energy | 32.0 |
| | Indirect energy | 1,170.8 |
| | Total energy consumption | 1,202.8 |
| | Energy intensity (1,000 kWh/employee) | 1.1 |
| Resource use | Total water consumption (tonne) | 213.7 |
| | Water consumption intensity (tonne/employee) | 0.2 |
| | Total packing material used (tonne) | 7 |

## II. QUALITY OF WORKING ENVIRONMENT

### 1. Working environment

The Group has been actively devoting significant resources with a vision of providing a safe and comfortable working environment for its staff and creating a healthy, positive, harmonious and efficient corporate culture that supports its staff at different locations to unleash their potential and hence create more values for the Group continuously. The office building of headquarter rented by Founder Electronics in Beijing has an area of approximately 13,274 sqm. The building was divided into different sections according to departmental functions, which include sales department, research and development department, functional departments and public areas, complemented by pantries and staff rest areas, offering a spacious and comfortable working environment for 1,088 staff.

### 2. Health and safety

***Occupational health of employee***

Founder Electronics always regards staff interests as the foundation of long-term corporate development and cares for physical and mental wellness as well as safety of its staff. We understand that the staff would be devoted to the Group's business in their best conditions and continuously create values for the Group only if they have good physical fitness and mental being. Throughout the years, the Group has made strenuous efforts in maintaining occupational safety and caring for its staff. Previously, we have engaged professionals of Chinese medicine to organize a salon, at which the professionals made diagnosis for our staff and gave professional advice on healthcare.

## 2. Health and safety *(continued)*

***Operational compliance***

The Group has complied with local safety regulations, striving to place safety in the first place at every operational level. The Group organises fire drills on a regular basis, through which the staff gain knowledge regarding fire safety and their safety awareness raises. In the future, Founder Electronics will continue to adhere to the core people-oriented principle to care for its staff from various aspects and organize different activities to enhance the wellness and safety awareness of its staff.

***Internal policy***

The Group adopts the following occupational health and safety measures to ensure the occupational safety of staff.

The Group has formulated "The safety management rules of Beijing Founder Electronics Co., Ltd. (北京北大方正電子有限公司安全管理規則)" to provide all staff of the Group with safety guidance within the office and working scope, as well as management rules for safety supervision. In addition, the Group has formulated "The comprehensive emergency plan for safety incidents of Beijing Founder Electronics Co., Ltd. (北京北大方正電子有限公司安全事故綜合應急預案)" to provide emergency plans for emergencies and safety accidents caused by energy, fire protection, network safety and public health, so as to ensure the health and safety of staff and to enhance the strain capacity of the Group in continuous operation.

***Employment contract***

In the employment contract entered into between the Group and the staff, relevant provisions on labour protection and occupational hazard protection are included. For example, Article 3 states that Founder Electronics has to provide necessary office conditions and labour safety protection for the staff, and establish and improve the working process, job specification and system for labour safety and health. In addition, Article 5 also states that Founder Electronics has to create working environment and conditions for the staff that meet the national occupational health standards and health requirements, and effectively protects the safety and health of staff in production in accordance with the relevant national labour protection regulations. The Group has strictly implemented the above regulations.

In 2022, the number of work-related injuries was 0, so there was no loss of working days due to work-related injuries. In addition, the number and rate of work-related fatalities were both 0.

## 3. Development and trainings

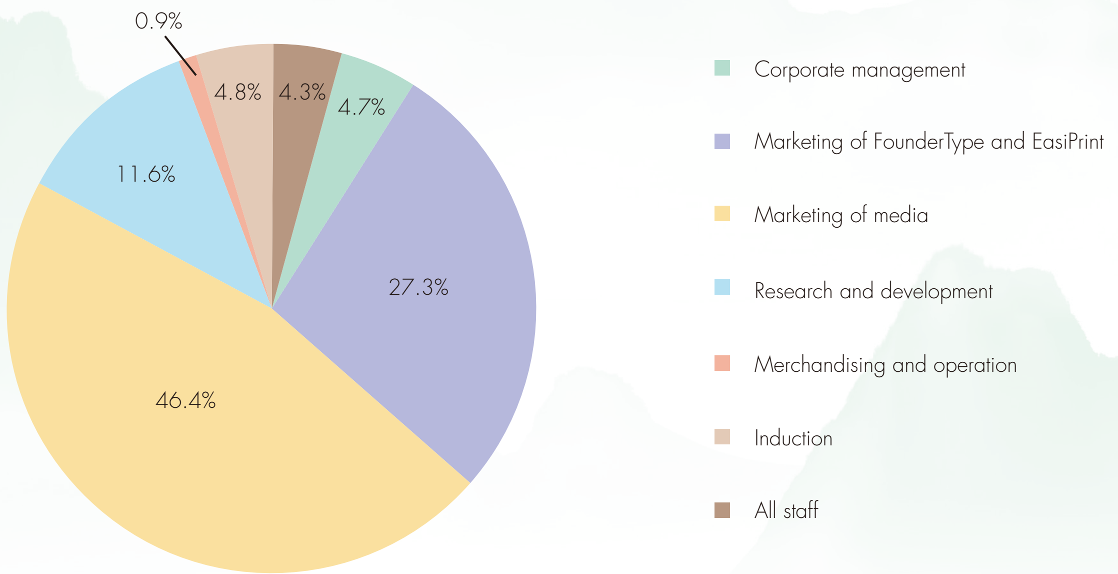
The Group always treats its staff as the most important asset and most valuable resource of the Group. They drive the continuous development of the Group and take the Group to new heights. The Group strives to provide diversified trainings for its staff at different aspects, so that its staff can gain a variety of professional knowledge and continue to develop their abilities, explore potential, enhance professional skills and broaden the horizons. In this regard, the Group launched a series of training programs, covering staff at all levels from new employees to senior management. Apart from free public courses organised by the Human Resources Department, the Group also provided diversified professional trainings targeting different business areas. In 2022, training activities organized by Founder Electronics attracted 1,594 participants in total. These activities have helped staff to better connect with the corporate culture and system and also enhanced their comprehensive capability as well as the capacity for sustainable development of the Group.

## 3. Development and trainings *(continued)*

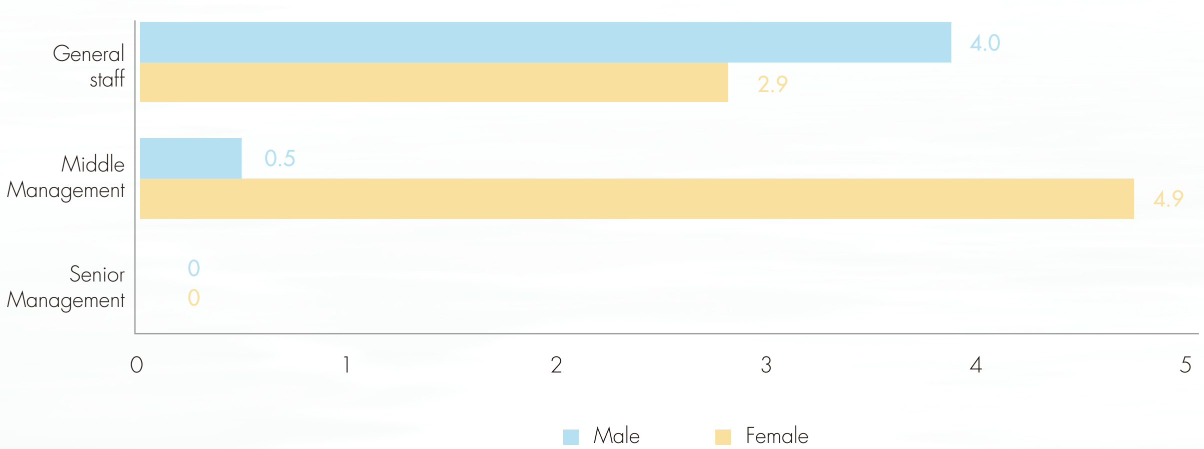
***Target group for training***

All kinds of training activities of the Group covered the staff of all levels and departments, including corporate management, marketing of FounderType and EasiPrint, marketing of media, research and development, merchandising and operation, induction and all staff, so that employees of all departments can have sufficient and comprehensive understanding of their jobs, industry development, innovative technology and corporate culture. In addition, training activities included workshops for workplace social and interest class. The number of participated employees from all departments is as follows:

PERCENTAGE OF PARTICIPANTS IN TOTAL



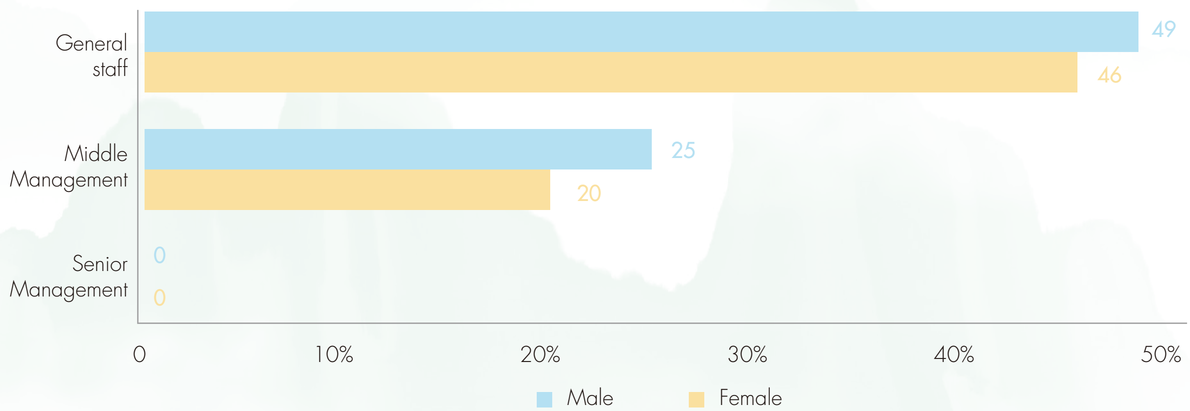

AVERAGE TRAINING HOURS PER CAPITA BY EMPLOYMENT TYPE



## 3. Development and trainings *(continued)*

***Target group for training*** *(continued)*

### PERCENTAGE OF TRAINED EMPLOYEES OF RELEVANT CATEGORY BY GENDER AND EMPLOYEE TYPE




Founder Electronics actively organized various activities targeting different types of business for its staff with a view to providing them with the most thoughtful and effective staff training programs.

***Training Camp for fresh graduates***

Founder Electronics hopes to transmit the corporate organizational culture through training, and to promote the role transformation of fresh graduates in the workplace. After participated in the training camp, fresh graduates can quickly integrate into the company and team by improving their skills in the workplace and completing the role transformation.

## 3. Development and trainings *(continued)*

***Training Camp for new managers***

Founder Electronics hopes to help the new managers better transform and develop themselves, and empower the new managers in term of individual and team through holding training camp for new managers. After participated in the training camp, the new managers are able to realize the difference between managing themselves and the team, so as to avoid the role dislocation and realize the role transformation.

***Orange wisdom for new youths***

Founder Electronics pays attention to the outstanding fresh graduates who worked within three years and stimulates their motivation in growth in order to achieve talent retention. After participated in the training camp, everyone perceived the Company's attention towards outstanding young people, and so that these excellent young people can get challenging jobs.

## 4. Labour standards

***Equal and diversified employment opportunities***

The Group strives to provide equal and diversified employment opportunities for its staff and strictly complied with the principle of fairness and anti-discrimination. Founder Electronics respects gender equality. Staff are provided with the same benefits and their remuneration are determined with the same method for new recruitment, promotion and determining level of remuneration. Promotion is based on personal competence instead of other factors such as gender and age. Furthermore, Founder Electronics includes its commitment to fairness and equity in the Company's rules, so that all employees are treated equally and all kinds of discrimination are strictly forbidden. The Group also encourages mutual respect among staff members in a view to creating a harmonious and friendly working environment.

In 2022, the Company had 1,088 regular employees, including the increase of 107 full-time employees and nil part-time employees. In addition, the Company has 38 contract employees, including 24 interns and 14 retirees by reemployment. Regarding the data of part-time employees, contract employees and interns divided by gender, age group, employment type and region, due to the limitations of the data collected this year, it will be improved in the next annual report.

***Ensure the rest time of staff***

Moreover, the Group reviews its employment terms on a regular basis and issued the "Management Rules for Attendance and Holiday (考勤及假期管理制度)", which effectively avoids the problem of prolonged working hours or forced labour and ensures the rest time of its staff by imposing stipulated number of working hours.

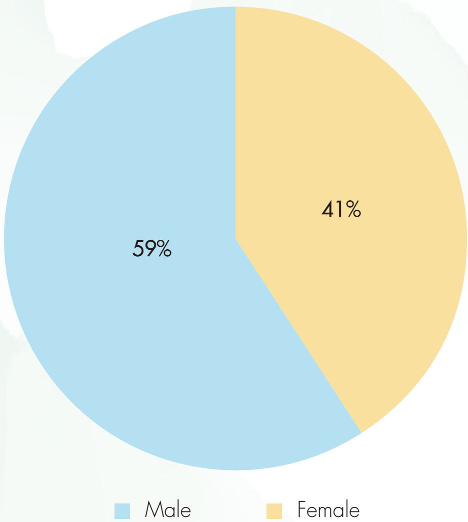
***Prevention of the employment of child labour***

The Group strictly abides by the provision of Article 15 of the Labour Law of the PRC, Article 28 of the Law on the Protection of Minors of PRC and Article 2 of the Prohibition of Child Labour Provisions (Order No. 364 of the State Council) that all the minors under the age of 16 are forbidden to be recruited. For staff recruitment, Founder Electronics has established a requirement for minimum academic qualification for employment to ensure that no child labour is employed. If the Group finds and realizes any violation on the prevention of forced labour and the prevention of the employment of child labour, it will be handled by the department of Human Resources in accordance with the "Management Rules for Attendance and Holiday" and the "Prohibition of Child Labour Provisions (禁止使用童工規定)" or the applicable internal guidelines.

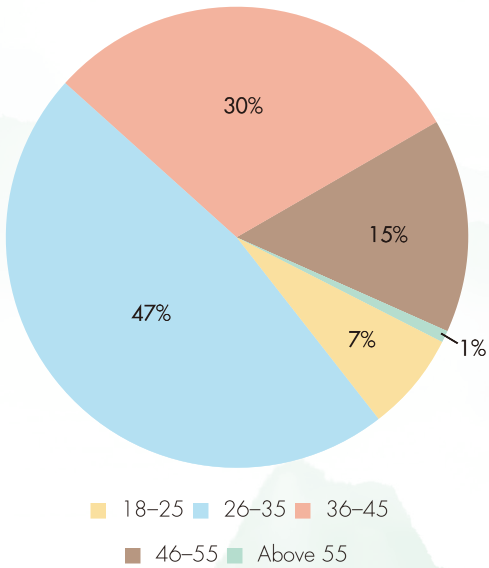
## 4. **Labour standards** *(continued)*

A detailed classification of our staff by gender, age groups, employment type and region set out as below:

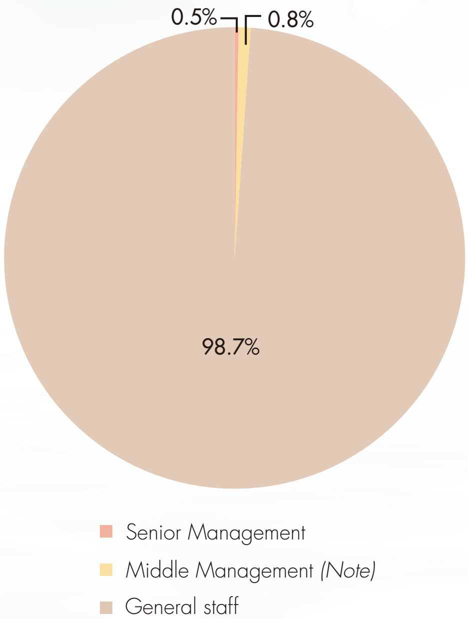
EMPLOYEE BY GENDER



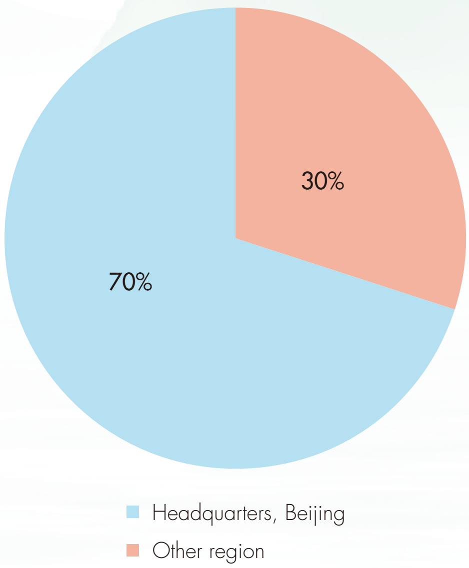

EMPLOYEE BY GROUPS




EMPLOYEE BY EMPLOYMENT TYPE




EMPLOYEE BY REGION

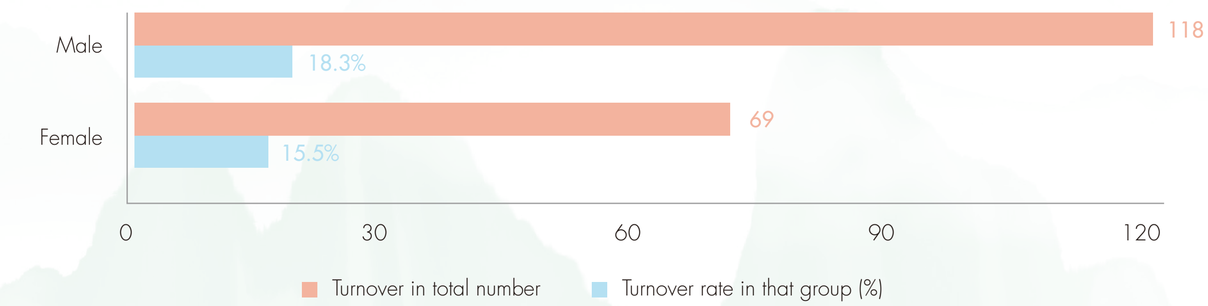



*Note:* The Middle Management defined as "the principal and deputy positions of the first level departments except the Senior Management".

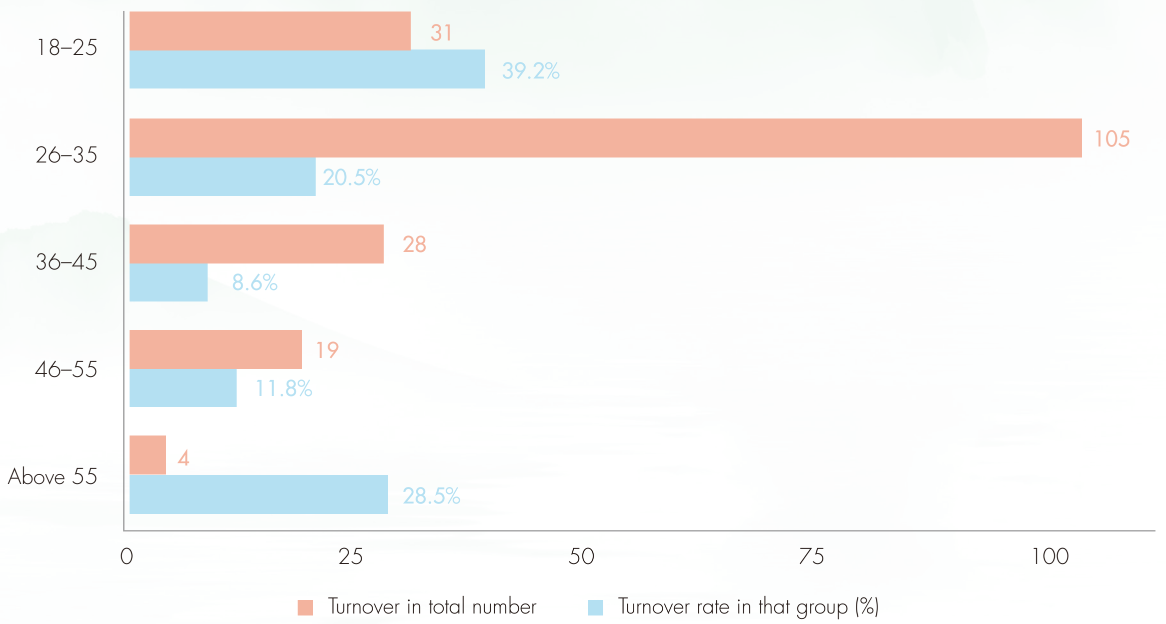
**4. Labour standards** *(continued)*

A detailed classification of staff turnover rate by gender, age groups, employment type and region set out below:

STAFF TURNOVER IN NUMBER AND IN RATE BY GENDER

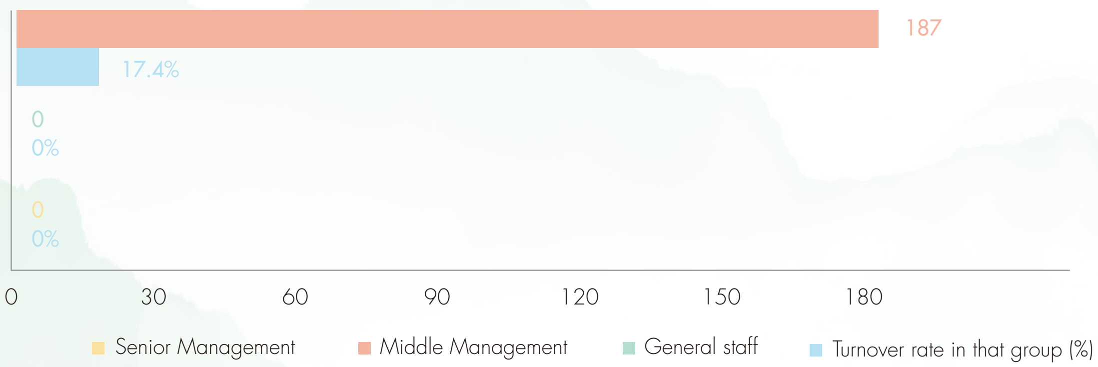



STAFF TURNOVER IN NUMBER AND IN RATE BY AGE GROUPS

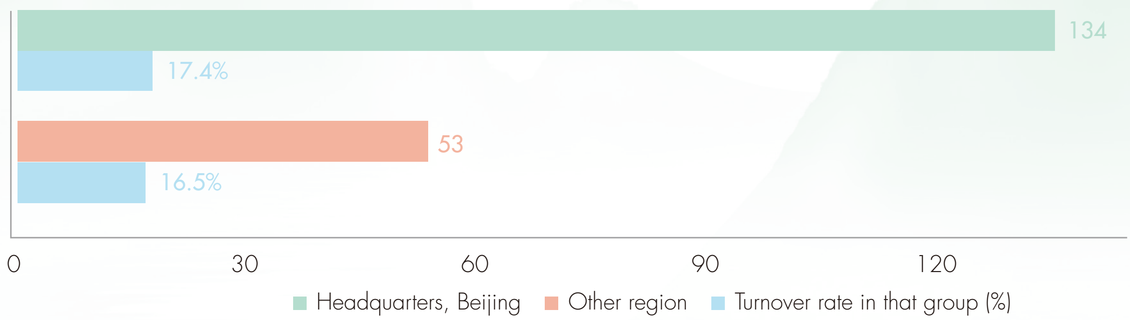


## 4. Labour standards *(continued)*

STAFF TURNOVER IN NUMBER AND RATE OF THAT GROUP BY EMPLOYMENT TYPE




STAFF TURNOVER IN NUMBER AND RATE OF THAT GROUP BY REGION



## 5. Staff welfare

The Group adhere to the core people-oriented principle, respecting the rights and interests of our employees and has already established a comprehensive welfare system, providing its staff with statutory benefits in strict compliance with the provisions of the Labour Law in the People's Republic of China, Labour Contract Law of the People's Republic of China and Regulations on the Administration of Housing Provident Fund, the scope of which covers provident fund, pension insurance, social insurance, additional commercial insurance, medical insurance, unemployment, maternity and work injury, etc.

***Social insurance***

Regarding the various bases of premium of social insurance for staff, Founder Electronics strictly complies with the regulations of Social Insurance Law of the People's Republic of China, implements and pays the premium in accordance with the national and local regulations to ensure that staff is guaranteed of statutory social protection.

***Additional commercial insurance***

Founder Electronics provides comprehensive medical insurance, personal accident insurance for staff and provides traffic accident insurance for staff with specific job needs, in order to provide staff with better medical and accident protection and more caring as well as comprehensive medical benefits.

***Staff dormitory***

Founder Electronics offered first-class accommodation for its staff. The dormitory was equipped with thoughtful facilities that take care of all aspects of lives of our staff, making every effort to show its care for the staff and providing them with comfortable, home-like dormitory equipment. Furthermore, Founder Electronics added one more laundry room for the staff living in youth apartment in order to satisfy the demand for washing and drying of clothes, and reduce their waiting time. In addition, there were 8 old air conditioners being replaced for improving the quality of lives of staff. Founder Electronics ceaselessly enhanced the overall living standards of the dormitory, which has in turn enhanced staff morale and their sense of belonging to the company.

***Other benefits***

To show the Company's care and attention to staff, Founder Electronics provides working lunch allowance of RMB30 per workday for staff, so that staff can enjoy a rich and nutritious lunch. In addition, the company provides free health check-ups, wedding cash gifts, travelling expenses of family visits for staff and so on.

## 5. Staff welfare *(continued)*

### *Staff activities*

In 2022, Founder Electronics held a number of large staff activities, so that staff could feel more belonging to the Company, and enhance the cohesion of the Company, reflecting the company's care for staff, showing a harmonious corporate culture.

*Spring blessings 5.0*

Five years like a day, Founder Electronics invited staff calligraphers to send unique New year's blessings to over 500 employees of Electronics Family by splashing ink for Chinese Calligraphy, so that employees could fully feel the unique "Chinese New Year's flavor" given by the company on the eve of the Spring Festival.

*When Valentine's Day met Chinese Lantern Festival*

When Valentine's Day met Chinese Lantern Festival, the management of the Company were happy to distribute red packets and wished everyone a good start of the work. With romantic roses, cute tiger doll, sweet chocolates and love gifts, the activity sweetened the hearts of more than 700 employees in this day when the western-style romantic Valentine's Day met the night of Chinese Lantern Festival, which has been handed down for thousands of years, the warm atmosphere was filled up instantly.

## 5. Staff welfare *(continued)*

***Staff activities*** *(continued)*

*Goddess Festival of Electronics Family*

On 8 March, Founder Electronics held the "Goddess DIY Workshop". "Bing Dwen Dwen (冰墩墩)", the most popular mascot of the Olympic Winter Games Beijing in 2022, was invited to visit Founder Building to offer the cutest blessing to the 50 goddesses of Electronics Family.

## 5. **Staff welfare** *(continued)*

***Staff activities*** *(continued)*

*Mid-Autumn Festival Activity at Electronics Family 2022*

Full of joy when the festival was coming! In the coming of Mid-Autumn Festival, over 350 employees of Founder Electronics participated in the reunion activities of Mid-Autumn Festival, including the Ice Moon Cake DIY and the Snack Blind Box Challenge. In a relaxed and happy atmosphere, the working buddies lit up the festival surprise together.

***Staff reward***

In the aspect of environmental governance, Founder Electronics sets incentive targets for staff's performance according to two criteria. One is to reward the staff who carried out the replacement of plug-in board with a small commemorative prize. The second is the staff who actively put forward effective suggestions on environmental improvement to the department of administration, who will be rewarded with an exquisite gift if the suggestions were adopted.

# III. OPERATING PRACTICE

## 1. Supply chain guidance on environmental and social risks

The Group puts great emphasis on quality of supply chain management and the possible impact on the environment and society in the supply process, such as how to save on the transportation process of the supply chain, so as to reduce the emissions of greenhouse gases and pollutants released from the transportation process. Therefore, the selection of suppliers will be based on the supply mode, supply content, supply cycle, location of customer, special policy requirements of manufacturers or users, business terms and other comprehensive conditions. The Group provides the internal guidance on the supply chain:

***Environmental considerations***

*The location of suppliers*

The Group will give priority to the local suppliers, and deliver the product directly to the customer's location, instead of arranging shipment through the Company's warehouse, so as to save transportation cost and resources and reduce the emission of greenhouse gases and pollutants.

*Software products suppliers*

The Group will give priority to the suppliers that can provide virtual authorization with non-physical supply methods in order to reduce transportation.

*On site implementation and service suppliers*

Based on the actual project situation, the Group will prioritise customers' location when considering supply made thereto.

*Production and processing suppliers*

In the early stage of cooperation, the Group will conduct a comprehensive assessment on its business qualification, and require it to have environmental qualification to prove that the production and processing does not constitute a negative impact on the environment, otherwise the Group will not cooperate with such suppliers.

***The links of supplier selection and procurement contract signing***

After receiving the demand of procurement, the procurement staff first selects the supplier according to the factors such as the limitation of supply area of the procurement product, the special requirements of user, and the location of service. For products with a long delivery period, the signing of sales contract, payment collection, environmental conditions of customer site will be confirmed to the relevant departments and approved according to the company's approval authority.

## 1. Supply chain guidance on environmental and social risks *(continued)*

***The links of product delivery or service implementation***

Before the delivery of products, the procurement staff should clarify the specific requirements of the sales contract before delivery, and the management staff of sales contract of the Operation Department should notify the procurement staff with the status of signing of the contract, the customer's payment for goods, the satisfaction of delivery conditions, the availability to arrange direct delivery to the customer's designated location, and other information about the customer's on-site receiving and unloading conditions. If the delivered products are easy to be damaged and will cause pollution and damage to the environment, the procurement staff will notify the shipper to reinforce the packaging before delivery.

For virtual authorization and other non-physical supply of goods, after the confirming the satisfaction of delivery conditions, the procurement staff shall notify the supplier to provide authorization or account information by e-mail and activate relevant services.

For the service requirements that need to be implemented on site, the payment terms of procurement are linked with the quality of implementation in the contract, and a reasonable default ratio is agreed to constrain the supplier. At the same time, the procurement staff are required to follow up the procurement progress on a regular basis, and give early warning in case of special circumstances, so as to avoid the occurrence of situations that affect the delivery and acceptance.

## 2. Supply chain management

***The background for introduction of suppliers***

In response to the changes in the business environment and needs for business development, the Company exercises caution in introducing new suppliers while reviewing the existing structure of supply chain on a regular basis. The introduction of new suppliers is due to the needs of new business development. First, there are no existing suppliers in the original supplier system that can meet the needs of new business supply. Second is regarding the original business. There are already suppliers in the original supplier system that can meet the supply requirements, but in order to improve the capacity of the supply channel, suppliers with better quality, pricing or business conditions can be introduced to form a more competitive supplier system.

***Supplier Introduction Rules***

The Group puts great emphasis on business quality, thereby adhering to the principles of fairness, justice and openness in terms of selection of suppliers. Therefore, Founder Electronics has formulated the "Supplier Introduction Rules (供應商引入規則)" to select appropriate suppliers in strict compliance with the rules and regulations. Any supplier that have never traded with the Group are required to complete comprehensive assessment on business qualification and the relevant approval procedures for introduction of supplier before a new transaction.

## 2. Supply chain management *(continued)*

***The procedures for introduction of suppliers***

The Group will arrange on-site visits to the manufacturers regularly in light of its attention to the testing and verification on product quality. In addition, a set of stringent standards for selection of suppliers with qualifications is in place and the specific requirements are as follows:

- Basic qualification requirement: Suppliers shall provide respective records of their qualifications, including the certificate of Unified Social Credit Number, identity card of legal person, basic information and financial statements of suppliers. If the supplier is a channel provider, it is also required to provide the qualification document proving that it is duly authorised by the manufacturers;

- Focus of Review: Founder Electronics will perform due diligence on basic information of suppliers and evaluate if their operating condition is excellent from the corporate financial statements to estimate its performance ability;

- Requirements on commercial conditions: Founder Electronics will enter into supplier contracts/agreements and non-corruption agreement with the suppliers who satisfy the qualification requirements. The agreements will specify the terms upon mutual agreement, such as the payment condition, delivery date and after-sale terms and will be subject to approval by the legal, operation, procurement and financial departments;

- Qualifications of environmental assessment: For suppliers engaging in processing, Founder Electronics maintains strict qualification requirement on the environmental assessment of manufacturers, otherwise such cooperation will not be considered;

- Special requirements: Founder Electronics exercises caution to a certain extent in introducing new suppliers, in which the differences of commercial conditions between newly introduced and the existing suppliers must be specified. For long-term corporate suppliers, Founder Electronics pays attention to where the supplier is located, whether the supplier can supply high-quality products in a long-term and stable manner, and whether it will continue to offer at relatively reasonable costs; while for project-specific based corporate suppliers, we pay attention to the degree to which the project is satisfied, such as delivery date and after-sales guarantee of the project, etc..

***Scope of application***

The relevant management system for introduction of new suppliers is applicable to all suppliers cooperating for the first time. In terms of the cooperative suppliers, the suppliers for the major business, which have transactions within the year, need to be evaluated. For the one-time cooperative suppliers of non-major business, option is available for arranging the evaluation frequency depends on the anticipation of future cooperation.

## 2. Supply chain management *(continued)*

***Evaluation mechanism for existing cooperative suppliers***

1. *Evaluation cycle*

   For the suppliers in cooperation, the comprehensive assessment is carried out quarterly and annually, with the consideration of different assessment elements.

2. *Evaluators*

   According to the type of the supplier and the business direction of main business, each supplier will be evaluated by the personnel in different sectors such as development, service, sales, products and procurement, depending on the situation.

3. *Evaluation dimension*

   According to the different service contents of suppliers, the evaluation dimensions of suppliers include but are not limited to the several of large aspects of quality, cost, service, date of delivery, financial position, technical ability and system flow, etc.

Founder Electronics will conduct regular assessment on the existing suppliers. Comprehensive evaluation shall be conducted on product qualification rate, frequency of quality accidents, price, payment terms, enthusiasm for cost reduction, on-time delivery rate, delivery time optimization, service satisfaction, technical capabilities, and system processes. If there are bad records in the annual cooperation, evaluation points will be deducted according to different degrees. If the total score is less than 60 marks, the cooperation will be terminated.

***Selecting criteria for suppliers that meet environmental protection products and services***

1. In relation to product solution, according to the requirements of national environmental protection policies in the field, enterprises meeting environmental protection requirements shall be selected for strategic cooperation, and relevant products meeting environmental protection requirements shall be used, or equipped with environmental protection, so as to provide customers with high-quality products in the form of comprehensive solutions.

2. Product suppliers in special fields shall provide relevant certification recognized by the field such as 3C certification, quality management system certification, etc. before the first cooperation. If there is no relevant certification, the approval for new supplier introduction will not be passed.

3. For products delivered in short distance, on the premise of ensuring product quality and safety, unnecessary packaging materials will be reduced so as to reduce procurement costs on the one hand and save resources on the other hand. The relevant implementation and supervision of this part can be reflected through the optimization of case's procurement cost.

4. For the strategic co-operative suppliers that supplying the liquated products, the quality and specification of the products should be optimized, under the predominance status and market satisfaction of the Group. By using the environmental materials which are difficult to damage and increasing the capacity of specification packing material will be reduced in the mass. In addition, the decreased volume of delivery can be achieved by further altering the ordering habit of customers, changing the order mode of high-frequency-low-capacity to low-frequency-appropriate-amount.

## 2. Supply chain management *(continued)*

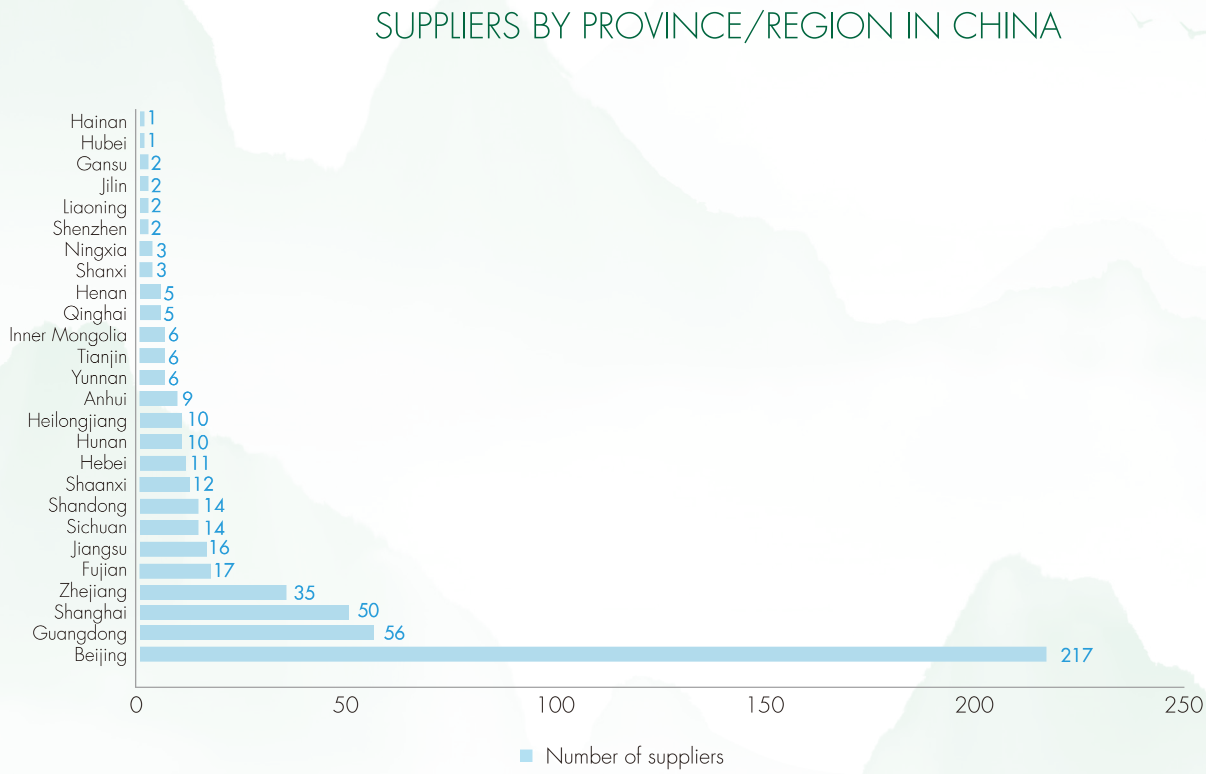
***Selecting criteria for suppliers that meet environmental protection products and services*** *(continued)*

5. Concerning the situation of damaged and hurt to environment during the transportation, the Group will increase the strength of management towards the suppliers. The goods should be insured in light of appropriate proportion before delivery. If the situation of the damage still exists, the procurement department should inform the business department immediately in order to claim the equal or above-equal compensation cooperatively towards the suppliers and alert the attention of suppliers. Furthermore, grade deducting will be conducted in the suppliers' annual evaluation by examining from the after-sale defection record.

6. For production-oriented suppliers, field inspection shall be carried out before the introduction. The requirements of the inspectors include not only the personnel of product technical direction, but also personnel of procurement. The key points of the inspection shall include: production environment management, production personnel management, production equipment management, production efficiency management, etc., and meeting minutes shall be formed according to the investigation process and results. After the supplier passes the inspection, it will be reflected when the supplier is officially introduced.

7. For product services, if there is no need for on-site solution, remote solutions such as network and telephone are preferred in order to void waste of human and material resources.

### 3. Source of suppliers




## 4. Product responsibility

***Printing development promoted by innovation products***

Founder Electronics is always committed to research and development of innovative products, with a view to providing customers with leading information processing technology, products, solutions and value-added services with high efficiency and quality through enhancement in service quality of business and advanced technologies. In 2020, the Company continued to deepen its strategic goal of realizing POD service (on-demand publishing) for PRC's publishing industry, aiming at promoting the current situation of lagging behind in the process of intelligence and automation in the industry by pouring the resources. A comprehensive solution which is suitable for POD on-demand printing system has been constructed, specifically including:

- Eaglejet P5600 digital inkjet production line (桀鷹P5600數位噴墨生產線): an industrial grading piezoelectric nozzle on demand, the first-to-none paper circuit design, a brand new structure of inkjet module, an open interface standards.

- Founder Yunshu Cloud Platform for Books and Periodicals Production (方正雲舒書刊製作雲平台): build a digital management platform for book production process, and get through the publishing and printing chain.

- New Generation of On-Demand Intelligent Production System (新一代按需智慧生產體系): using digital printing, information and communication technology to realize the connection between people and things, to help enterprises construct flexible, efficient and intelligent work paradigm.

For the press, publishing and printing industries, the promotion of the progress of the industry with technique and technology has always been the company's diligent pursuit, tireless exploration and development goals. In the future, Founder Electronics will build a Chinese version of the intelligent and digital on-demand printing factory, through the Internet cloud service platform to form an integrated information system as a whole with publishers and distributors.

The Group is in strict compliance with the stringent requirements laid down by the national and local regulatory authorities on customer services and products. Founder Electronics, adhering to the principle of being customer-oriented, has developed a stringent system on controlling product quality in addition to the legal requirements, checking every process in respect of products and services to ensure steady and reliable quality of products, so as to provide the best customer service experience.

The main business of the Group is research and development of software, and there is no major production activity related to hardware, the products thus are not polluted to the environment and do not involve in the environmental protection issues. During the reporting period, there were no products sold or delivered that need to be reclaimed for safety and health reasons and no complaints about products and services sold.

***Handling procedures for customer complaints***

The Group's handling procedures for customer complaints has the following correspondent management process, which describe the acceptance of customer complaints, handling of complaints, supervision of the handling process, confirmation of complaint results and analysis of complaints, etc., so as to ensure the timely and efficient handling of complaints.

## 4. Product responsibility *(continued)*

***Handling procedures for customer complaints*** *(continued)*

*Complaints' acceptance and recording*

The business support department has set up a complaint hotline, fax and mailbox, where a specially assigned person (customer service specialist) handles complaints from customers about the company's products, services, sales and other aspects. The customer service specialist shall fill in the "complaint acceptance record form" in a timely and detailed manner to record the information and handling process of complaints from the beginning of accepting complaints from customers.

*Handling of complaints*

Handling of complaints by responsible department

The business support department shall determine the department responsible for handling the complaint and submit the complaint to the relevant responsible person. The responsible department includes the relevant business departments, regions and business departments involved in the leftover problems and complaints. The person in charge of handling must complete the problem analysis, preliminarily decision plan and notify the customer and business support department within 2 working days to ensure that the complaints are handled as soon as possible. The person in charge of handling shall coordinate the relevant departments to implement the solutions and timely inform the business support department of the service center concerning the development. If necessary, the business support department can participate in coordinating and solving problems.

Tracking the process by Business support department

The business support department shall follow up and supervise the handling process, and the frequency of follow-up shall be determined according to the solution provided by the person in charge of handling, and coordinate with the customer if necessary.

The handling results for complaint

When the complaint is solved, the business support department will communicates with the customer to obtain the customer's approval. The complaint will be filed when the handling result is approved by the customer. The business support department shall coordinate with the person in charge of handling if the handling result is not accepted by customer. If no agreement is reached by the customer and the person in charge of handling, the director of the business support department shall give handling opinions according to the investigation, and the general manager of the service center shall give handling opinions in case of serious problems. If the customer does not accept the final solution or adopt other solutions such as appeal, or arbitration, the business support department can terminate the coordination and the follow-up of this complaint.

After-complaint

After handling each complaint, the business support department shall sort out the complaint record, summarize and analyze the complaint, and form a report to the relevant management. The Group's management process for handling customer complaints complies with the requirements of ISO 9001 quality control system. During the reporting year, the Group received 0 complaint.

***Protection on intellectual property***

The Group has developed an internal patent application process in which the patent review committee of the technology management department assists in reviewing the writing and the submission of application for technical patent documents, and employs an external patent agent to assist in patent application, so as to protect the intellectual property of the Group. In addition, the Group will conduct annual assessment on patents every year, abandon invalid patents, and carry out patent early warning locally and abroad from time to time to avoid infringement and being infringed. The Group also applies for and protects intellectual property in accordance with the Patent Law of the PRC, the Trademark Law of the PRC and the Copyright Law of the PRC.

## 4. Product responsibility *(continued)*

### *Verification process for product quality*

The Group has developed "Test Regulations (測試規程)" internally, with a special team to verify the quality of software products. The verification process includes test planning, test implementation, test evaluation and program error handling post-product release, so as to ensure customers to receive high-quality products.

### *Protection on customer data*

The relevant customer data is stored and maintained in the enterprise resource planning system (ERP). The Group sets the access authority of the corresponding operation module. Unauthorized personnel cannot access and use the customer data, and the aforesaid operation does not involve the export of customer so that the customers are protected.

## 5. Anti-corruption

The Group firmly opposes corruption, favoritism and irregularities. To eliminate corruption and deceit and uphold the principle of impartiality and integrity, Founder Electronics has formulated a series of standards and regulations to eliminate such acts in every business. Staff is prohibited from accepting advantages from suppliers, customers, colleagues and others when performing duties. The Group is also committed to promoting the style of honesty and justice, and have a management rules in relation to business ethics and integrity construction (商業道德及廉潔建設管理的制度) in which the specific requirements and management mechanism for integrity construction have been specified to prevent corruptions and illegal acts, and requiring staff to comply with the ethical standards and develop business adhering to the highest standard of integrity, so as to enhance the overall integrity of the Group. During the reporting period, there were no legal cases regarding corruption practices brought against the Group or its employees.

### *Measures and trainings on Anti-corruption*

When employees of the Group are inducted, they are required to participate in new employee training, including the promotion of content of business ethics and incorruptibility construction. When cadres of the Company are promoted, the new managers need to participate in compliance training, focusing on the provisions and requirements on anti-corruption and bribery. The legal department will also carry out the corresponding training of business ethics and incorruptibility construction from time to time every year.

In 2022, the anti-corruption training of the Company was attended by a total a 77 participants, including 11 people from senior management and 60 people from general staff.

### 5. Anti-corruption *(continued)*

#### *Compliance training*

The Group mainly carried out compliance training in the new employee training session, which involves the popularization of some common legal knowledge, emphasizing law-abiding and discipline abiding, and not conducting illegal things such as encroachment on occupation, misappropriation of funds, bribery and so on. In addition, the Group also regularly carried out the class or issued guidance documents for employees to learn by themselves.

In 2022, the compliance training of Founder Electronics was mainly held in the induction training and all new employees were required to participate, with a total of 107 participants.

#### *Reporting mechanism*

The Group encourages employees to report the possible corruption of the company. Employees and departments of the Group both have the right and obligation to report the violations concerning such behaviours. If there is any reporting materials, the company will investigate the corruption and give handling comments on the results of the investigation.

## IV. SOCIAL WELFARE

In order to earnestly honour our corporate citizenship, the Company is always committed to serving and contributing to the society by proactively participating in various public services. As a leading enterprise in the modern printing and media technology in China, Founder Electronics has made strenuous efforts in understanding the needs of society, sharing the results of technological innovation and research and development of the Company with the society. It also enhanced the cultural development of the society by organising activities involving social education, cultural diffusion and internet, so as to promote social civilisation.

**The first batch of digital artwork "Founder Oracle•Twelve Chinese Zodiac (《方正甲骨文•十二生肖》)" by Founder Electronics for charitable sale**

As a leader in Chinese information processing, Founder Electronics has always adhered to the spirit of independent innovation in the development for more than 30 years, and is committed to promoting the deep integration of culture and technology, becoming a "pathfinder" for the innovative development of cultural and technological industries. With the rapid development of the concept of Metaverse in recent years, the advent of NFT digital collections has built a connection between the "real world" and the "imaginary world", and has become one of the current vogue trends that young people care about.

Combining digital collections with traditional Chinese culture will not only find a better development path for the inheritance and innovation of traditional culture, but also help to attract the attention and participation of group of young people. We have to keep the Chinese culture and context together by combining "Digit and Reality". On 13 July, Founder Electronics launched the series of digital artworks of "Founder Oracle•Twelve Chinese Zodiac (《方正甲骨文•十二生肖》)", which were officially marketed and for making an appointment on the "Metavision (元視覺)" Art Website, and already be officially put on sale at 13:00 on 15 July. This charitable sale was supported and participated by more than 500 employees.

The series includes twelve styles of Chinese Zodiac for sale, with a limit sale of 5,000 pieces for each style, and a unit price of RMB1 per piece. The proceeds from this sale will be entirely donated to the "Youth Growth Education and Development Fund (青少年成長教育發展基金)" project of China Guanghua Foundation, aiming to strengthen the cultural confidence of the new generation of teenagers and enable the inheritance of the excellent culture of the Chinese Nation through the empowerment of science and technology.

## V. AN OVERVIEW OF SUSTAINABLE DEVELOPMENT

Pursuant to the Appendix 27 of Listing Rules, the Company has complied with the relevant laws and regulations of Environmental, Social and Governance Indicator as follows:

| Environmental, Social and Governance Aspect | Compliance with National Laws and Regulations | Internal Policies |
|---|---|---|
| A Environmental | Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes<br>Law of the PRC on the Environmental Protection | – |
| B1 Employment | Labour Law of the PRC<br>Labour Contract Law of the PRC<br>Social Insurance Law of the PRC<br>Prohibition of Child Labour Provisions<br>Regulation on Management of Housing Provident Fund | Management Rules for Attendance and Holiday |
| B2 Health and Safety | Labour Law of the PRC<br>Work Safety Law of the PRC<br>Regulation on Work-Related Injury Insurances | The safety management rules of Beijing Founder Electronics Co., Ltd.<br>The comprehensive emergency plan for safety accidents of Beijing Founder Electronics Co., Ltd.<br>The assessment rules for safety production of Beijing Founder Electronics Co., Ltd. |
| B4 Labour Standard | Labour Law of the PRC<br>Labour Contract Law of the PRC<br>Law on the Protection of Minors of the PRC<br>Prohibition of Child Labour Provisions | Management Rules for Attendance and Holiday<br>Emergency plan on COVID-19 prevention and control of Beijing Founder Electronics Co., Ltd. |
| B5 Supply Chain Management | – | Supplier Introduction Rules |
| B6 Product Responsibility | Patent Law of the PRC<br>Copyright Law of the PRC<br>Trademark Law of the PRC | Testing Regulation |
| B7 Anti-corruption | Criminal Law of the PRC<br>Company Law of the PRC<br>Anti-Money Laundering Law of the PRC<br>Law of the PRC on Anti-Unfair Competition | Management rules for business ethics and integrity construction |

## CONCLUSION AND PROSPECT

Founder Electronics will continuously invest the resources on research and development and actively promote the integration among technology, education and culture. During the development process of Font Library in computer and the artificial intelligence products on calligraphy education, Founder Electronics has invested professional human resources including font designers and engineers of research and development, and has continued to cultivate and train relevant professionals. At the same time, in the process of promoting the inheritance and development of Chinese character culture, Founder Electronics is actively mobilizing communication resources, giving full play to the advantages of media communication, and helping to enhance the attention and influence of Chinese character culture in the public.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr Cheung Shuen Lung**, aged 66, is an executive director and chairman of the Company since December 2016. He is also a director of a number of subsidiaries of the Company. He was appointed as the executive director and chairman of Peking University Resources (Holdings) Company Limited ("PKU Resources") (stock code: 00618), a company listed on the main board of The Stock Exchange of Hong Kong Limited ("Main Board") in October 2015 and resigned as chairman and executive director in October 2021 and November 2021 respectively. He is a research fellow of the Enterprise Research Institute at Peking University and is an MBA alumni trainer of Peking University Guanghua School of Management. Mr Cheung is famed for his prestige and has extensive experience in the information technology industry in the People's Republic of China (the "PRC").

**Mr Shao Xing**, aged 58, is the president and executive director of the Company since July 2016. He joined the Group in April 2016 and has extensive experience in the operation of software development and system integration business. He is the director of a number of subsidiaries of the Company. He received his bachelor's degree in industrial electrical automation and master degree in biomedical engineering and instrument at Zhejiang University in the PRC. He is also a senior engineer in the PRC. He is responsible for long-term strategic development of the Group.

**Mr Qi Zi Xin**, aged 47, is an executive director of the Company since June 2022. He is the president of Beijing EC-Founder Co., Ltd. (北京方正數碼有限公司), a wholly-owned subsidiary of Founder Information Industry Co., Ltd.* ("Founder Information") (方正信息產業有限責任公司), the substantial shareholder of the Company. He is also the chairman and director of (i) China Hi-Tech Group Co., Ltd. ("China Hi-Tech") (中國高科集團股份有限公司) (stock code: 600730), a company in which 20.03% of equity interest is indirectly held by New Founder Holdings Development Company Limited* ("New Founder") (新方正控股發展有限責任公司, the indirect substantial shareholder of the Company), since May 2019; and (ii) Founder Technology Group Corporation ("Founder Technology") (方正科技集團股份有限公司) (stock code: 600601), a company in which 10.98% of equity interest is held by New Founder and its subsidiaries, from August 2022 to April 2023. The shares of China Hi-Tech and Founder Technology are listed on the Shanghai Stock Exchange. He is also a director of a number of associated companies of New Founder. Mr Qi received his bachelor degree in Law, bachelor degree in Economics and master degree in Law at Peking University. Mr Qi has extensive experience in listed companies management and investment and finance management, and has solid knowledge in the field of law and economics.

**Mr Hu Bin**, aged 44, is an executive director of the Company since December 2016. He is a director of (i) China Hi-Tech since May 2016; (ii) Founder Securities Co., Ltd. (方正證券股份有限公司) (stock code: 601901), a company in which 28.71% of equity interest is held by New Founder and its shares listed on the Shanghai Stock Exchange, since January 2018; and (iii) Founder Technology from November 2016 to April 2023. He is also a director of associated companies of New Founder and a subsidiary of the Company. Mr Hu received his bachelor's degree in accounting at Beijing University of Technology in the PRC. He is a Certified Public Accountant in the PRC, member of the Association of Chartered Certified Accountants in the United Kingdom and CFA charterholder. He has been a senior manager of an international firm of Certified Public Accountants. Mr Hu has extensive knowledge and experience in financial management.

* *For identification purpose only*

**Mr Zhang Jian Guo**, aged 53, is an executive director of the Company since June 2022. He is a vice president of Beijing Founder Electronics Co., Ltd. (北京北大方正電子有限公司) ("Founder Electronics"), a wholly-owned subsidiary of the Company, and a general manager of Peking Founder Handwriting Digital Technology Co., Ltd. (北京方正手跡數字技術有限公司), a subsidiary of Founder Information. Mr Zhang received his bachelor degree in information mathematics from Peking University and his master degree in Business Administration at Guanghua School of Management of Peking University. Mr Zhang is a director of the Chinese Information Society of China (中國中文信息學會理事), the head of the Professional Committee of Chinese Character Font Information (漢字字形信息專業委員會主任委員), a deputy head of the Chinese Character Font Design and Research Centre (中國文字字體設計與研究中心副主任), a member of the National Language and Character Standardization Technical Committee (全國語言文字標準化技術委員會委員), and a deputy head of the Coding Sub-Technical Committee of the National Information Technology Standardization Technical Committee (SAC/TC28/SC2) (全國信息技術標準化技術委員會編碼分技術委員會(SAC/TC28/SC2)副主任委員). Mr Zhang has extensive business and management experience in the key business areas of Founder Electronics.

**Ms Wu Jing**, aged 41, is an executive director of the Company since October 2022. She is the employee of New Founder. Ms Wu received her bachelor's degree in civil and commercial law from East China University of Political Science and Law in 2004, she received a master's degree in international commercial law from Vrije University Amsterdam in 2005 and a master's degree in international law and European Union Law from University of Amsterdam in 2007. Ms Wu has extensive business experience and managerial experience in the field of law, especially international law.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr Chan Chung Kik, Lewis**, aged 50, is an independent non-executive director of the Company since March 2017. He serves as the independent non-executive director of (i) HongGuang Lighting Holdings Company Limited, a company which was previously listed on the GEM (stock code: 8343) in December 2016 and was subsequently transferred to the Main Board (stock code: 6908) in November 2019, since December 2016; and (ii) Wing Chi Holdings Limited (stock code: 6080), a company listed on the Main Board, since September 2017. He also served as an independent non-executive director of (i) Shandong Xinhua Pharmaceutical Company Limited (山東新華製藥股份有限公司), a company listed on the Main Board (stock code: 719) and the Shenzhen Stock Exchange (stock code: 000756) from May 2014 to June 2018; (ii) Hong Kong Aerospace Technology Group Limited (formerly known as "Eternity Technology Holdings Limited") (stock code: 1725), a company listed on the Main Board, from July 2018 to July 2021; and (iii) PKU Resources from March 2017 to September 2021. Mr Chan obtained a bachelor degree of commerce in accounting from the University of Canberra in Australia in September 1997. He is currently a fellow of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and a member of CPA Australia. He has extensive experience in auditing, accounting and corporate finance.

**Mr Lai Nga Ming, Edmund**, aged 39, is an independent non-executive director of the Company since April 2020. He is (i) the company secretary of Luxxu Group Limited (stock code: 1327), a company listed on Main Board; and (ii) the company secretary and authorised representatives of C&N Holdings Limited (stock code: 8430), a company listed on the GEM, since July 2021. He was an independent non-executive director of PKU Resources from April 2020 to September 2021. Mr Lai received a Bachelor of Arts (Honours) in Accountancy from The Hong Kong Polytechnic University and is a member of HKICPA. He has accumulated extensive experience in auditing and accounting by working in various international firms of Certified Public Accountants, listed and multinational companies in Hong Kong such as Grant Thornton Hong Kong, BDO Hong Kong and SDM Group Holdings Limited (stock code: 8363), a company listed on the GEM.

# REPORT OF THE DIRECTORS

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the principal activities of the Company and its subsidiaries (collectively the "Group") during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2022 and the Group's financial position at that date are set out in the financial statements on pages 70 to 155.

The directors do not recommend the payment of any dividend in respect of the year.

## BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are set out in the section headed "Management Discussion and Analysis" on pages 4 to 13 of the annual report.

The financial risk management objectives and policies of the Group are set out in note 38 to the financial statements.

An analysis of the Group's performance during the year using financial key performance indicators is set out in the sections headed "Management Discussion and Analysis" on pages 4 to 13 and "Financial Highlights" on page 3 of the annual report.

Discussion on the Group's environment policies, relationships with its employees, customers, suppliers and other key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are set out in the section headed "Environmental, Social and Governance Report" on pages 24 to 55 of the annual report.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 158. This summary does not form part of the audited financial statements.

## SHARE CAPITAL

There were no movements in the Company's share capital during the year.

## PRE-EMPTIVE RIGHTS

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

## 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.

## MANAGEMENT CONTRACT

No contracts in respect of the management or administration of the whole or any substantial part of the business of the Group were entered into or subsisted during the year.

## DISTRIBUTABLE RESERVES

At 31 December 2022, the Company's reserves available for distribution amounted to approximately HK$166,147,000. In addition, the Company's share premium account, in the amount of approximately HK$53,597,000, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchase for the year.

None of the directors of the Company or any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest suppliers and customers.

## DIRECTORS

The directors of the Company during the year were:

**Executive directors:**

Mr Cheung Shuen Lung
Mr Shao Xing
Mr Qi Zi Xin (appointed on 10 June 2022)
Mr Hu Bin
Mr Zhang Jian Guo (appointed on 10 June 2022)
Ms Wu Jing (appointed on 25 October 2022)
Professor Xiao Jian Guo (retired on 25 May 2022)
Ms Liao Hang (resigned on 25 October 2022)

**Independent non-executive directors:**

Mr Chan Chung Kik, Lewis
Mr Lau Ka Wing
Mr Lai Nga Ming, Edmund

Subsequent to the end of the reporting period, on 16 March 2023, Mr Lau Ka Wing resigned as independent non-executive director of the Company.

In accordance with the bye-laws of the Company, Mr Shao Xing, Mr Qi Zi Xin, Mr Zhang Jian Guo, Ms Wu Jing and Mr Lai Nga Ming, Edmund will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of its independent non-executive directors, and as at the date of this report still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 56 to 57 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' EMOLUMENTS

The emoluments of the directors of the Company are determined by reference to the market rates, commitments, contribution and their duties, responsibilities within the Group.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its directors and officers.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2022, the interests and short positions of the directors in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

**Long positions in ordinary shares of the Company:**

| Name of director | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Mr Shao Xing | Directly beneficially owned | 12,685,556 | 1.05 |
| Mr Zhang Jian Guo | Directly beneficially owned | 1,160,000 | 0.09 |

Save as disclosed above, as at 31 December 2022, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2022, none of the directors of the Company had any interest in a business (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which is considered to compete or is likely to compete, either directly or indirectly, with the businesses of the Group.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2022, so far it is known to the directors of the Company, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

**Long positions:**

| **Name** | *Notes* | **Capacity and nature of interest** | **Number of ordinary shares held** | **Percentage of the Company's issued share capital** |
|---|---|---|---|---|
| 中國平安保險（集團）股份有限公司 (Ping An Insurance (Group) Company of China, Ltd.*) ("Ping An") | *1* | Through a controlled corporation | 367,179,610 | 30.60 |
| 中國平安人壽保險股份有限公司 (Ping An Life Insurance Company of China, Ltd.*) ("Ping An Life") | *2* | Through a controlled corporation | 367,179,610 | 30.60 |
| 新方正（北京）企業管理發展有限公司 (New Founder (Beijing) Enterprise Management Development Co., Ltd.*) ("New Founder (Beijing)") | *3* | Through a controlled corporation | 367,179,610 | 30.60 |
| 新方正控股發展有限責任公司 (New Founder Holdings Development Co., Ltd.*) ("New Founder") | *4* | Through a controlled corporation | 367,179,610 | 30.60 |
| 方正信息產業有限責任公司 (Founder Information Industry Co., Ltd.*) ("Founder Information") | | Directly beneficially owned | 367,179,610 | 30.60 |

*Notes:*

1. Ping An was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Ping An Life.

2. Ping An Life was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in New Founder (Beijing).

3. New Founder (Beijing) was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in New Founder.

4. New Founder was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Founder Information.

Save as disclosed above, so far it is known to the directors of the Company, as at 31 December 2022, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

## CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

(a) On 31 December 2021, 北京北大方正電子有限公司 (Beijing Founder Electronics Co., Ltd.) ("Founder Electronics") and 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.*) ("Founder EasiPrint") renewed the lease agreements and management agreements with 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder") and 北京北大資源物業經營管理集團有限公司 (Beijing Peking University Resource Property Management Group Co., Ltd.*) ("Beida Management"), a subsidiary of Peking Founder as at the date of the agreements, to lease the premises in Beijing from 1 January 2022 to 31 December 2022, for the total amount of rental of RMB12,365,000 and management fees of RMB4,845,000 (equivalent to approximately HK$14,428,000 and HK$5,654,000). Further details of the transaction were set out in the announcement of the Company dated 31 December 2021.

During the year, the rental expenses and management fees of Founder Electronics and Founder EasiPrint payable to Peking Founder and Beida Management were approximately HK$14,428,000 (2021: HK$14,881,000) and HK$5,654,000 (2021: HK$5,831,000), respectively. The directors consider that the rental and management fees were accrued in accordance with the terms of the lease agreements and management agreements.

On 20 December 2022, the Company has been informed that the 30.60% equity interest of the Company that was indirectly held by Peking Founder through its wholly-owned subsidiary was transferred and became indirectly held by New Founder. As such, Peking Founder has ceased to be a connected person of the Company and New Founder has become a controlling shareholder of the Company under the Listing Rules, and the transactions contemplated under the lease agreements were no longer continuing connected transactions of the Company from 20 December 2022 onwards. Further details of the transaction were set out in the announcement of the Company dated 20 December 2022.

On 11 January 2023, Founder Electronics and Founder EasiPrint signed the management agreements with Beida Management, a subsidiary of New Founder as at the date of the agreements, to provide property management services in Beijing from 11 January 2023 to 31 December 2023, for the management fees of RMB4,563,000 (equivalent to approximately HK$5,065,000). Further details of the transaction were set out in the announcement of the Company dated 11 January 2023.

(b) On 30 October 2019, the Company and Peking Founder entered into a master purchase agreement ("2019 Master Purchase Agreement") for three years from 1 January 2020 to 31 December 2022 with annual caps for each year. Further details of the transaction were set out in the announcement of the Company dated 30 October 2019. Due to the change of controlling shareholder as mentioned in note (a) above, the transactions contemplated under the 2019 Master Purchase Agreement were no longer continuing connected transactions of the Company from 20 December 2022 onwards. The 2019 Master Purchase Agreement was terminated by Peking Founder and the Company on the same date.

On 28 December 2022, the Company and New Founder entered into a new master purchase agreement for the three years ending 31 December 2024 with annual caps for each year. Further details of the transaction were set out in the announcement of the Company dated 28 December 2022.

During the year, products and services of approximately HK$1,402,000 (2021: HK$2,135,000) were purchased from Peking Founder and its subsidiaries ("Peking Founder Group"). The directors consider that the purchases of products and services were made in accordance with the master purchase agreement.

(c) On 25 October 2018, the Company entered into a master sales agreement with Peking Founder for the sales of information products, hardware and software development services and system integration services to Peking Founder Group for the period from 1 January 2019 to 31 December 2021 with annual cap for each year. Further details of the transaction were set out in the announcement of the Company dated 25 October 2018.

On 22 April 2022, the Company and Peking Founder entered into a master sales agreement ("2022 Master Sales Agreement") to extend the contract term to 31 December 2024. Further details of the transaction were set out in the announcement of the Company dated 22 April 2022. Due to the change of controlling shareholder as mentioned in note (a) above, the transactions contemplated under the 2022 Master Sales Agreement were no longer continuing connected transactions of the Company from 20 December 2022 onwards. The 2022 Master Sales Agreement was terminated by Peking Founder and the Company on the same date.

On 28 December 2022, the Company and New Founder entered into a new master sales agreement for the sales of information products, hardware and software development services and system integration services to New Founder and its subsidiaries ("New Founder Group") for the three years ending 31 December 2024 with annual caps for each year. Further details of the transaction were set out in the announcement of the Company dated 28 December 2022.

During the year, sales of information products, hardware and software development services and system integration services of approximately HK$5,343,000 (2021: HK$3,168,000) were made to Peking Founder Group. The directors consider that the sales of information products and system integration services were made in accordance with the master sales agreement.

(d) Ping An indirectly held 66.51% equity interest in New Founder and therefore is a substantial shareholder and a connected person of the Company since 20 December 2022 under the Listing Rules. Ping An and its subsidiaries (not within the New Founder Group) ("Ping An Group") from time to time purchase font library products and enter into individual font library licensing agreements on substantially the same terms (other than the font library products and licensing periods) with the Company.

On 28 December 2022, the Company proposed the annual caps for the transactions contemplated under the font library licensing agreements with Ping An Group for the three years ending 31 December 2024.

During the year, sales of font library products of approximately HK$7,000 (2021: Nil) were made to Ping An Group.

(e) On 30 October 2019, the Company renewed an entrusted loan master agreement with Peking Founder, pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2022. Such loans are unsecured and interest-bearing at the prevailing benchmark Renminbi lending rate for a loan period of six months offered by the PBOC plus 15%. Further details of the transaction were set out in the announcement of the Company dated 30 October 2019.

As at 31 December 2019, entrusted loans and interest receivable in an aggregate amount of RMB375,591,000 (equivalent to approximately HK$418,408,000) was due from Peking Founder and were included in prepayments, deposits and other receivables.

After considering the operating results and financial position of Peking Founder, provision for impairment in an aggregate amount of RMB375,591,000 (equivalent to approximately HK$418,408,000) was made by the Company in 2019.

As at 31 December 2021, the entrusted loans and interest receivable in an aggregate amount of RMB375,591,000 (equivalent to approximately HK$459,348,000) from Peking Founder remained outstanding and the provision for impairment in the aggregate amount of RMB375,591,000 (equivalent to approximately HK459,348,000) remained unchanged.

The entrusted loans lent to Peking Founder were settled on 11 March 2022 as to the amount of RMB993,000 (equivalent to approximately HK$1,159,000) and 28 December 2022 as to the amount of RMB119,778,000 (equivalent to approximately HK$139,756,000). The provision for impairment in the amount of RMB120,771,000 (equivalent to approximately HK$140,915,000) was reversed in 2022. Further details of the transaction were set out in the announcement of the Company dated 29 December 2022.

As at 31 December 2022, the entrusted loans and interest receivable in the aggregate amount of RMB254,820,000 (equivalent to approximately HK$285,271,000) from Peking Founder remained outstanding and the provision for impairment in the aggregate amount of RMB254,820,000 (equivalent to approximately HK$285,271,000) was recorded.

The directors consider that the provision of entrusted loans and the receipt of interest income from Peking Founder were made in accordance with the entrusted loan master agreement.

The independent non-executive directors of the Company have reviewed the continuing connected transactions as set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 (Revised) *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unmodified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

## 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 number of issued shares were held by the public as at the date of this report.

## AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting. The Company has not changed its auditor in the preceding three years.

ON BEHALF OF THE BOARD

**Cheung Shuen Lung**
*Chairman*

Hong Kong
28 March 2023

* *For identification purpose only*

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

EY 安永

**To the shareholders of Founder Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Founder Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 155, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## KEY AUDIT MATTERS *(continued)*

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Valuation of land and buildings and investment properties*<br>The Group measured its land and buildings and investment properties at fair value as at 31 December 2022 and the carrying amounts of these properties were HK$240,911,000 and HK$138,914,000, respectively, which in aggregate represented 26% of the Group's total assets. The fair value measurement of these properties is subjective and requires management to make significant estimates. To assist with their determination of the fair value, management engaged external property valuation appraisers to perform the valuations. The valuations are based on various assumptions, such as estimated rental revenue, adopted yield, market knowledge and historical transactions.<br><br>Relevant disclosures are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates*, note 12 *Property, plant and equipment* and note 13 *Investment properties* to the consolidated financial statements. | Our audit procedures included the evaluation of the quality, objectivity, independence and expertise of the external property valuation appraisers, and the selected property-related information (such as, location, age, area and rental income) used in the valuation. In addition, we assessed the underlying assumptions through comparison with available external data. We also involved our internal valuation specialists to assist us in assessing the valuation model and the parameters used.<br><br>We also focused on the adequacy of the disclosures of the valuation of the land and buildings and investment properties in the financial statements. |
| *Impairment of trade receivables*<br>As at 31 December 2022, the carrying amount of trade receivables before provision for impairment was HK$210,326,000, which was included in the balance of trade and bills receivables. The Group recognised an impairment provision based on the expected credit loss ("ECL") approach under HKFRS 9 *Financial Instruments*. The measurement of ECLs requires the application of significant judgement and estimates, such as the expected future cash flows and forward-looking factors specific to the debtors and the economic environment. As at 31 December 2022, the impairment provision recorded for trade receivables was HK$43,509,000.<br><br>Relevant disclosures are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 19 *Trade and bills receivables* to the consolidated financial statements. | Our audit procedures included obtaining an understanding of the design, implementation and operating effectiveness of key internal controls which govern the credit control, debt collection and estimate of ECLs.<br><br>We assessed the reasonableness of ECLs determined by management by examining the information used to form such judgement and estimates, including the historical default information, and the historical loss rates as adjusted for current economic conditions and forward-looking information.<br><br>We evaluated the reasonableness of the provision for impairment of trade receivables by reference to the Group's subsequent collection.<br><br>We also reviewed the adequacy of the disclosures of impairment of trade receivables in the financial statements. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Man Kit.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

28 March 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2022

| | Notes | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **957,578** | 1,073,838 |
| Cost of sales | | **(467,665)** | (558,748) |
| Gross profit | | **489,913** | 515,090 |
| Other income and gains | 5 | **53,683** | 74,319 |
| Selling and distribution expenses | | **(224,793)** | (249,317) |
| Administrative expenses | | **(94,864)** | (88,790) |
| Other expenses, net | | **(69,075)** | (207,946) |
| Finance costs | 7 | **(318)** | (169) |
| Share of (losses)/profits of associates | 15 | **(321)** | 11 |
| PROFIT BEFORE TAX | 6 | **154,225** | 43,198 |
| Income tax (expense)/credit | 10 | **(119,474)** | 286 |
| PROFIT FOR THE YEAR | | **34,751** | 43,484 |
| Attributable to: | | | |
| Owners of the parent | | **34,751** | 43,484 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 11 | **HK2.9 cents** | HK3.6 cents |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2022

| | Notes | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|
| PROFIT FOR THE YEAR | | **34,751** | 43,484 |
| OTHER COMPREHENSIVE (LOSS)/INCOME | | | |
| Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods: | | | |
| Share of other comprehensive loss of associates | *15* | **(216)** | (119) |
| Exchange differences on translation of foreign operations | | **(65,767)** | 20,215 |
| Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods | | **(65,983)** | 20,096 |
| Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods: | | | |
| Changes in fair value of equity investments at fair value through other comprehensive income | *16* | **(1,209)** | (172) |
| Revaluation deficit of land and buildings, net of tax | | **(10,894)** | (16,255) |
| Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods | | **(12,103)** | (16,427) |
| OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX | | **(78,086)** | 3,669 |
| TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR | | **(43,335)** | 47,153 |
| Attributable to: | | | |
| Owners of the parent | | **(43,335)** | 47,153 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2022

| | Notes | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | *12* | **256,312** | 309,469 |
| Investment properties | *13* | **138,914** | 146,969 |
| Right-of-use assets | *14(a)* | **4,610** | 6,257 |
| Investments in associates | *15* | **2,466** | 3,003 |
| Equity investments at fair value through other comprehensive income | *16* | **383** | 1,667 |
| Intangible assets | *17* | **–** | – |
| Deferred tax assets | *28* | **–** | 130,753 |
| Pledged deposits | *23* | **4,284** | 2,510 |
| Total non-current assets | | **406,969** | 600,628 |
| CURRENT ASSETS | | | |
| Inventories | *18* | **88,434** | 110,150 |
| Trade and bills receivables | *19* | **180,391** | 165,054 |
| Contract assets | *20* | **17,196** | 15,026 |
| Prepayments, deposits and other receivables | *21* | **55,627** | 71,014 |
| Financial assets at fair value through profit or loss | *22* | **1,081** | 1,194 |
| Pledged deposits | *23* | **721** | 4,580 |
| Cash and cash equivalents | *23* | **733,315** | 599,166 |
| Total current assets | | **1,076,765** | 966,184 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | *24* | **55,597** | 64,169 |
| Contract liabilities | *25* | **71,887** | 70,983 |
| Other payables and accruals | *26* | **256,179** | 273,510 |
| Lease liabilities | *14(b)* | **3,246** | 4,261 |
| Tax payable | | **330** | 4,511 |
| Total current liabilities | | **387,239** | 417,434 |
| NET CURRENT ASSETS | | **689,526** | 548,750 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,096,495** | 1,149,378 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | *14(b)* | **1,102** | 1,451 |
| Deferred tax liabilities | *28* | **45,325** | 54,524 |
| Total non-current liabilities | | **46,427** | 55,975 |
| Net assets | | **1,050,068** | 1,093,403 |

31 DECEMBER 2022

| | Notes | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | *29* | **119,975** | 119,975 |
| Reserves | *31* | **930,093** | 973,428 |
| Total equity | | **1,050,068** | 1,093,403 |

**Cheung Shuen Lung**
*Director*

**Shao Xing**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2022

| | Attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium account (note 31) HK$'000 | Contributed surplus (note 31) HK$'000 | Land and buildings revaluation reserve HK$'000 | Equity investments at fair value through other comprehensive income revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | General reserve (note 31) HK$'000 | Accumulated losses HK$'000 | Total equity HK$'000 |
| At 1 January 2021 | 119,975 | 53,597 | 867,910 | 251,267 | (12,156) | 12,697 | 79,868 | (326,908) | 1,046,250 |
| Profit for the year | – | – | – | – | – | – | – | 43,484 | 43,484 |
| Other comprehensive income for the year: | | | | | | | | | |
| Revaluation deficit of land and buildings, net of tax | – | – | – | (16,255) | – | – | – | – | (16,255) |
| Changes in fair value of equity investments | – | – | – | – | (172) | – | – | – | (172) |
| Share of other comprehensive loss of associates | – | – | – | – | – | (119) | – | – | (119) |
| Exchange differences on translation of foreign operations | – | – | – | – | – | 20,215 | – | – | 20,215 |
| Total comprehensive income for the year | – | – | – | (16,255) | (172) | 20,096 | – | 43,484 | 47,153 |
| Transfer of revaluation reserve of land and buildings to accumulated losses | – | – | – | (8,023) | – | – | – | 8,023 | – |
| At 31 December 2021 | 119,975 | 53,597* | 867,910* | 226,989* | (12,328)* | 32,793* | 79,868* | (275,401)* | 1,093,403 |

| | Attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium account *(note 31)* HK$'000 | Contributed surplus *(note 31)* HK$'000 | Land and buildings revaluation reserve HK$'000 | Equity investments at fair value through other comprehensive income revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | General reserve *(note 31)* HK$'000 | Accumulated losses HK$'000 | Total equity HK$'000 |
| At 1 January 2022 | 119,975 | 53,597* | 867,910* | 226,989* | (12,328)* | 32,793* | 79,868* | (275,401)* | 1,093,403 |
| Profit for the year | - | - | - | - | - | - | - | 34,751 | 34,751 |
| Other comprehensive loss for the year: | | | | | | | | | |
| Revaluation deficit of land and buildings, net of tax | - | - | - | (10,894) | - | - | - | - | (10,894) |
| Changes in fair value of equity investments | - | - | - | - | (1,209) | - | - | - | (1,209) |
| Share of other comprehensive loss of associates | - | - | - | - | - | (216) | - | - | (216) |
| Exchange differences on translation of foreign operations | - | - | - | - | - | (65,767) | - | - | (65,767) |
| Total comprehensive loss for the year | - | - | - | (10,894) | (1,209) | (65,983) | - | 34,751 | (43,335) |
| Transfer of revaluation reserve of land and buildings to accumulated losses | - | - | - | (12,741) | - | - | - | 12,741 | - |
| Transfer to general reserve | - | - | - | - | - | - | 5,192 | (5,192) | - |
| At 31 December 2022 | 119,975 | 53,597* | 867,910* | 203,354* | (13,537)* | (33,190)* | 85,060* | (233,101)* | 1,050,068 |

* These reserve accounts comprise the consolidated reserves of HK$930,093,000 (2021: HK$973,428,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2022

| | Notes | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **154,225** | 43,198 |
| Adjustments for: | | | |
| Finance costs | 7 | **318** | 169 |
| Share of losses/(profits) of associates | 15 | **321** | (11) |
| Interest income | 5 | **(8,632)** | (7,301) |
| Fair value losses/(gains) on investment properties | 6 | **11,541** | (3,810) |
| Gain on disposal of items of property, plant and equipment | 5 | **(97)** | (52) |
| Fair value gains on financial assets at fair value through profit or loss, net | 6 | **–** | (383) |
| Fair value gains on structured deposits | 6 | **–** | (1,046) |
| Impairment/(reversal of impairment) of trade receivables and contract assets | 6 | **6,525** | (2,735) |
| Loss on lease revision | | **–** | 144 |
| Depreciation of property, plant and equipment | 6 | **19,151** | 20,188 |
| Depreciation of right-of-use assets | 6 | **3,726** | 2,687 |
| (Reversal of impairment)/impairment of deposits and other receivables | 6 | **(141,859)** | 1,590 |
| Write-off of inventories | 6 | **1,533** | 7,427 |
| Provision for obsolete inventories | 6 | **5,767** | 9,018 |
| | | **52,519** | 69,083 |
| Decrease/(increase) in inventories | | **15,344** | (51,195) |
| (Increase)/decrease in contract assets | | **(2,201)** | 3,346 |
| (Increase)/decrease in trade and bills receivables | | **(21,831)** | 35,523 |
| Decrease/(increase) in prepayments, deposits and other receivables | | **15,472** | (13,883) |
| Increase in contract liabilities | | **904** | 1,867 |
| Decrease in trade and bills payables | | **(8,572)** | (3,781) |
| (Decrease)/increase in other payables and accruals | | **(17,331)** | 8,961 |
| Exchange differences | | **4,480** | (5,116) |
| Cash generated from operations | | **38,784** | 44,805 |
| Interest received | | **8,632** | 7,301 |
| Interest element of lease liabilities | | **(318)** | (169) |
| Hong Kong profits tax paid | | **(109)** | (125) |
| Corporate income tax paid in the Mainland of the People's Republic of China ("Mainland China" or the "PRC") | | **–** | (3,995) |
| Net cash flows from operating activities | | **46,989** | 47,817 |

YEAR ENDED 31 DECEMBER 2022

| | Notes | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | 12 | **(5,183)** | (9,911) |
| Proceeds from disposal of items of property, plant and equipment | | **293** | 1,810 |
| Purchases of financial assets at fair value through profit or loss | | **–** | (424) |
| Purchases of structured deposits | | **–** | (192,560) |
| Proceeds from disposal of structured deposits | | **–** | 371,965 |
| Repayment of other loans from related companies | | **798** | – |
| Repayment of entrusted loans from related companies | | **140,915** | – |
| Decrease in pledged deposits | | **2,085** | 2,875 |
| Net cash flows from investing activities | | **138,908** | 173,755 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Principal portion of lease payments | | **(3,417)** | (1,708) |
| Net cash flows used in financing activities | | **(3,417)** | (1,708) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **182,480** | 219,864 |
| Cash and cash equivalents at beginning of year | | **599,166** | 363,785 |
| Effect of foreign exchange rate changes, net | | **(48,331)** | 15,517 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 23 | **733,315** | 599,166 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 23 | **625,762** | 477,731 |
| Non-pledged time deposits | 23 | **107,553** | 121,435 |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | 23 | **733,315** | 599,166 |

## 1. CORPORATE AND GROUP INFORMATION

Founder Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda. The head office and principal place of business of the Company is located at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in software development, system integration and the distribution of information products.

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Founder (Hong Kong) Limited ("Founder HK") | Hong Kong | Ordinary HK$977,974,378 | 100 | – | Information product distribution and investment holding |
| 北京北大方正電子有限公司 Beijing Founder Electronics Co., Ltd. ("Founder Electronics")# | PRC/ Mainland China | Registered HK$230 million | – | 100 | Software development, system integration and information product distribution |
| 北京方正印捷數碼技術有限公司 (Beijing Founder EasiPrint Digital Technology Co., Ltd.@) ("Founder EasiPrint")^ | PRC/ Mainland China | Registered RMB50 million | – | 100 | Software development and information product distribution |
| 北京方正數字印刷技術有限公司 (Beijing Founder Digital Printing Technology Co., Ltd.@) ("Founder Digital Printing")^ | PRC/ Mainland China | Registered RMB5 million | – | 100 | Information product distribution |
| Founder Electronics (HK) Limited | Hong Kong | Ordinary HK$2 | – | 100 | Information product distribution |
| Royal Bright Limited | Hong Kong | Ordinary HK$2 | – | 100 | Property holding |
| Royal Leader Limited | Hong Kong | Ordinary HK$2 | – | 100 | Property holding |
| Royal Power Limited | Hong Kong | Ordinary HK$2 | – | 100 | Property holding |
| Sharp Century Limited | Hong Kong | Ordinary HK$2 | – | 100 | Property holding |
| PUC Founder (M) Sdn. Bhd. | Malaysia | Ordinary RM500,000 | – | 100 | Investment holding |

# 1. CORPORATE AND GROUP INFORMATION *(continued)*

## Information about subsidiaries *(continued)*

@ For identification purposes only

# Registered as a wholly-foreign-owned enterprise under PRC law

^ Registered as limited liability companies under PRC law

The above table lists the subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, land and buildings classified as property, plant and equipment, equity investments at fair value through other comprehensive income, bills receivable, and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

## Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

## 2.1 BASIS OF PREPARATION *(continued)*

### Basis of consolidation *(continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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.

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Reference to the Conceptual Framework* |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use* |
| Amendments to HKAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract* |
| *Annual Improvements to HKFRSs 2018–2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. Prior to the initial application of the amendments, the Group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and none of them was onerous. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that are applicable to the Group are as follows:

HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to HKFRS 16 | *Lease Liability in a Sale and Leaseback*[2] |
| HKFRS 17 | *Insurance Contracts*[1] |
| Amendments to HKFRS 17 | *Insurance Contracts*[1, 5] |
| Amendment to HKFRS 17 | *Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[6] |
| Amendments to HKAS 1 | *Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[2, 4] |
| Amendments to HKAS 1 | *Non-current Liabilities with Covenants (the "2022 Amendments")*[2] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | *Disclosure of Accounting Policies*[1] |
| Amendments to HKAS 8 | *Definition of Accounting Estimates*[1] |
| Amendments to HKAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1] |

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

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented. During the year, the Group has performed a detailed assessment on the impact of amendments to HKAS 12. The Group has estimated that no deferred tax asset will be recognised for deductible temporary differences associated with lease liabilities and a deferred tax liability of HK$414,000 for taxable temporary differences associated with right-of-use assets, and recognise the cumulative effect of initially applying the amendments as an adjustment to retained profits at 1 January 2022.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments in associates and joint ventures *(continued)*

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### Fair value measurement

The Group measures its land and buildings, investment properties, financial assets at fair value through profit or loss, bills receivable and equity investments at fair value through other comprehensive income at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties *(continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either 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); and

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

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment and depreciation *(continued)*

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in a revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation surplus to accumulated losses is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on its original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to accumulated losses as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Land and buildings | Over the lease term |
| Leasehold improvements | 20% or 33⅓% |
| Furniture, fixtures and office equipment | 20% to 33⅓% |
| Machinery and equipment | 12.5% to 20% |
| Motor vehicles | 10% to 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investment properties *(continued)*

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

#### *Patents and licences*

Purchased patents and patent application rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three years.

#### *Research and development costs*

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leases

The Group assesses at contract inception whether a contract is, or contains, 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.

#### *Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. 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, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leases *(continued)*

#### *Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Investments and other financial assets** *(continued)*

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

*Financial assets at fair value through other comprehensive income (debt instruments)*

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

*Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

#### *General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than three years past due.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Impairment of financial assets** *(continued)*

***General approach*** *(continued)*

The Group considers a financial asset in default when contractual payments are aged more than three years. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group's credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

| | | |
|---|---|---|
| Stage 1 | – | Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs |
| Stage 2 | – | Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs |
| Stage 3 | – | Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs |

***Simplified approach***

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial liabilities

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables and other financial liabilities included in other payables and accruals.

***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at amortised cost*

After initial recognition, trade and bills payables and other payables are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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

(a) *Sale of information products and software*

Revenue from the sale of information products and software is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the information products and software.

(b) *Sale of software development and system integration services*

Revenue from the provision of software development and system integration services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the services.

***Revenue from other sources***

Rental income is recognised on a time proportion basis over the lease terms.

***Other income***

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

### Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

### Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

### Employee benefits

***Pension schemes***

The Group operates defined contribution retirement benefit schemes for those employees who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the respective schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund.

When an employee leaves the Mandatory Provident Fund Exempted Occupational Retirement Schemes Ordinance retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group will be reduced by the relevant amount of forfeited employer contributions. In respect of the Mandatory Provident Fund retirement benefit scheme, the Group's employer mandatory contributions vest fully with the employees when contributed into the scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a certain percentage of the participating employees' salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits *(continued)*

#### *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Foreign currencies** *(continued)*

The functional currencies of certain subsidiaries and associates not operating in Hong Kong are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries not operating in Hong Kong are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries not operating in Hong Kong which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

***Classification between investment properties and owner-occupied properties***

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### Estimation uncertainty

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

***Provision for expected credit losses on trade receivables and contract assets***

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on the invoice date for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast industry conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets are disclosed in notes 19 and 20 to the financial statements, respectively.

***Provision for expected credit losses on loan receivables***

Impairment of loan receivables is assessed on a 12-month ECL basis when there has been no significant increase in credit risk since initial recognition. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL. Assessment is done based on the Group's historical credit loss experience, general conditions, external credit ratings and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The provision for ECLs is sensitive to changes in estimates. The information about the ECLs on the Group's loan receivables is disclosed in note 21 to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### Estimation uncertainty *(continued)*

#### *Provision for obsolete inventories*

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. If the market condition was to deteriorate so that the actual provision might be higher than expected, the Group would be required to revise the basis of making the provision and its future results would be affected.

#### *Fair value of investment properties and land and buildings*

Investment properties and land and buildings are carried in the statement of financial position at their fair values. The fair value was based on a valuation on the properties conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair values of the Group's investment properties and land and buildings and the corresponding adjustments to the gain or loss recognised in the statement of profit or loss and the land and buildings revaluation reserve, respectively. Further details, including the key assumptions used for fair value measurement, are given in notes 12 and 13 to the financial statements.

#### *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profits will be available against which the losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total amount of unrecognised deductible temporary differences and unrecognised tax losses at 31 December 2022 was approximately HK$922,615,000 (2021: HK$471,285,000). Further details are included in note 28 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

The Group is primarily engaged in the sales of information products and software and sales of software development and system integration. Given that the chief operating decision maker of the Company considers that the Group's business is operated and managed as a single segment, accordingly, no segment information is presented.

### Geographical information

***(a) Revenue from external customers***

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Mainland China | **953,323** | 1,069,224 |
| Hong Kong | **4,128** | 4,486 |
| Others | **127** | 128 |
| | **957,578** | 1,073,838 |

The revenue information above is based on the locations of the customers.

***(b) Non-current assets***

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Mainland China | **208,292** | 252,091 |
| Hong Kong | **191,544** | 210,571 |
| Others | **2,466** | 3,036 |
| | **402,302** | 465,698 |

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets and pledged deposits.

### Information about major customers

During the year, there was no revenue derived from transactions with a single external customer which individually accounted for 10% or more of the Group's revenue (2021: Nil).

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Revenue from contracts with customers** | **953,008** | 1,068,862 |
| **Revenue from other sources** | | |
| Rental income from investment property operating leases | **4,570** | 4,976 |
| | **957,578** | 1,073,838 |

### Revenue from contracts with customers

*(i)* ***Disaggregated revenue information***

**For the year ended 31 December 2022**

| | Total<br>HK$'000 |
|---|---|
| **Types of goods or services** | |
| Sale of information products and software | **943,631** |
| Sale of software development and system integration service | **9,377** |
| Total revenue from contracts with customers | **953,008** |
| **Geographical markets** | |
| Mainland China | **952,881** |
| Others | **127** |
| Total revenue from contracts with customers | **953,008** |
| **Timing of revenue recognition** | |
| Goods transferred at a point in time | **943,631** |
| Services transferred over time | **9,377** |
| Total revenue from contracts with customers | **953,008** |

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

**Revenue from contracts with customers** *(continued)*

***(i) Disaggregated revenue information*** *(continued)*

For the year ended 31 December 2021

| | Total HK$'000 |
|---|---|
| **Types of goods or services** | |
| Sale of information products and software | 1,056,196 |
| Sale of software development and system integration service | 12,666 |
| Total revenue from contracts with customers | 1,068,862 |
| **Geographical markets** | |
| Mainland China | 1,068,734 |
| Others | 128 |
| Total revenue from contracts with customers | 1,068,862 |
| **Timing of revenue recognition** | |
| Goods transferred at a point in time | 1,056,196 |
| Services transferred over time | 12,666 |
| Total revenue from contracts with customers | 1,068,862 |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Sale of information products and software | **47,576** | 52,074 |
| Sale of software development and system integration service | **70** | 3,897 |
| | **47,646** | 55,971 |

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

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

#### *(ii) Performance obligations*

Information about the Group's performance obligations is summarised below:

*Sale of information products and software*

The performance obligation is satisfied upon delivery of information products and software and payment is generally due within 90 days from the invoice date, except for new customers, where payment in advance is normally required. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the goods' quality by the customers over a certain period as stipulated in the contracts.

*Sale of software development and system integration*

The performance obligation is satisfied over time as services are rendered and payment is generally due within 15 days from the invoice date. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Amounts expected to be recognised as revenue: | | |
| Within one year | **49,560** | 108,636 |
| After one year | **–** | 871 |
| | **49,560** | 109,507 |

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to software development and system integration services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

## 5. REVENUE, OTHER INCOME AND GAINS *(continued)*

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| **Other income** | | |
| Bank interest income | **8,632** | 7,301 |
| Government grants *(note)* | **38,757** | 52,253 |
| Others | **6,197** | 5,108 |
| | **53,586** | 64,662 |
| **Gains** | | |
| Gain on disposal of items of property, plant and equipment | **97** | 52 |
| Fair value gains on structured deposits | **–** | 1,046 |
| Foreign exchange differences, net | **–** | 4,366 |
| Fair value gains on investment properties | **–** | 3,810 |
| Fair value gains on financial assets at fair value through profit or loss, net | **–** | 383 |
| | **97** | 9,657 |
| | **53,683** | 74,319 |

*Note:* Various government grants have been received for the sale of software approved by the PRC tax authority and the development of software in Mainland China. The government grants have been recognised upon sales of approved software and completion of the development of related software. There are no unfulfilled conditions or contingencies relating to these grants.

## 6. PROFIT BEFORE TAX

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

| | Notes | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| Auditor's remuneration | | **2,702** | 2,560 |
| Cost of inventories sold and services provided** | | **461,898** | 549,730 |
| Depreciation of property, plant and equipment | *12* | **19,151** | 20,188 |
| Depreciation of right-of-use assets | *14(a)* | **3,726** | 2,687 |
| Lease payments not included in the measurement of lease liabilities | *14(c)* | **22,293** | 24,720 |
| Impairment/(reversal of impairment) of trade receivables and contract assets* | *19/20* | **6,525** | (2,735) |
| (Reversal of impairment)/impairment of deposits and other receivables* | *21* | **(141,859)** | 1,590 |
| Loss on write-off of inventories* | | **1,533** | 7,427 |
| Provision for obsolete inventories** | | **5,767** | 9,018 |
| Research and development costs: | | | |
| Current year expenditure* | | **187,157** | 191,030 |
| Employee benefit expenses (including directors' and chief executive's remuneration – *note 8*): | | | |
| Wages and salaries | | **243,010** | 263,037 |
| Pension scheme contributions*** | | **40,782** | 43,767 |
| | | **283,792** | 306,804 |
| Foreign exchange differences, net | | **10,907** | (4,366) |
| Direct operating expenses (including repair and maintenance) arising on rental-earning investment properties | | **502** | 531 |
| Fair value gains on financial assets at fair value through profit or loss, net | | **–** | (383) |
| Fair value losses/(gains) on investment properties | *13* | **11,541*** | (3,810) |
| Fair value gains on structured deposits | | **–** | (1,046) |

* These items are included in "Other expenses, net" in the consolidated statement of profit or loss.

** These items are included in "Cost of sales" in the consolidated statement of profit or loss.

*** At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: Nil).

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Interest on lease liabilities | **318** | 169 |
| | **318** | 169 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Fees | **540** | 540 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **3,117** | 2,728 |
| Performance related bonuses* | **1,374** | 2,985 |
| Pension scheme contributions | **175** | 136 |
| | **4,666** | 5,849 |
| | **5,206** | 6,389 |

* Certain executive directors of the Company are entitled to bonus payments which are determined with reference to the performance of the Group's operations.

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Mr Chan Chung Kik, Lewis | **180** | 180 |
| Mr Lau Ka Wing[1] | **180** | 180 |
| Mr Lai Nga Ming | **180** | 180 |
| | **540** | 540 |

1 Resigned on 16 March 2023

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

### (b) Executive directors

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| 2022 | | | | | |
| Mr Cheung Shuen Lung | **–** | **1,450** | **–** | **73** | **1,523** |
| Mr Shao Xing# | **–** | **1,219** | **1,374** | **67** | **2,660** |
| Mr Qi Zi Xin[1] | **–** | **–** | **–** | **–** | **–** |
| Mr Hu Bin | **–** | **–** | **–** | **–** | **–** |
| Mr Zhang Jian Guo[1] | **–** | **448** | **–** | **35** | **483** |
| Ms Liao Hang[2] | **–** | **–** | **–** | **–** | **–** |
| Ms Wu Jing[3] | **–** | **–** | **–** | **–** | **–** |
| Professor Xiao Jian Guo[4] | **–** | **–** | **–** | **–** | **–** |
| | **–** | **3,117** | **1,374** | **175** | **4,666** |
| 2021 | | | | | |
| Mr Cheung Shuen Lung | – | 1,481 | – | 73 | 1,554 |
| Mr Shao Xing# | – | 1,247 | 2,985 | 63 | 4,295 |
| Mr Hu Bin | – | – | – | – | – |
| Ms Liao Hang[2] | – | – | – | – | – |
| Professor Xiao Jian Guo[4] | – | – | – | – | – |
| Ms Zuo Jin[5] | – | – | – | – | – |
| | – | 2,728 | 2,985 | 136 | 5,849 |

# Mr Shao Xing is also the chief executive officer of the Group
1 Appointed on 10 June 2022
2 Resigned on 25 October 2022
3 Appointed on 25 October 2022
4 Retired on 25 May 2022
5 Resigned on 2 December 2021

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2021: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **2,406** | 2,904 |
| Performance related bonuses | **361** | 1,865 |
| Pension scheme contributions | **113** | 190 |
| | **2,880** | 4,959 |

The number of non-director and non-chief executive, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees 2022 | 2021 |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | **2** | 1 |
| HK$1,500,001 to HK$2,000,000 | **–** | 2 |
| | **2** | 3 |

## 10. INCOME TAX

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the year | **141** | 111 |
| Current – Mainland China | | |
| Charge for the year | **1** | 692 |
| (Overprovision)/underprovision in prior years | **(4,037)** | 3,042 |
| Deferred *(note 28)* | **123,369** | (4,131) |
| Total tax charge/(credit) for the year | **119,474** | (286) |

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for the first HK$2,000,000 of assessable profits for Founder Electronics (HK) Limited which is taxed at the rate of 8.25% as Founder Electronics (HK) Limited elects the two-tiered profits tax rates in 2022 and 2021.

## 10. INCOME TAX *(continued)*

Taxes on profits assessable in Mainland China have been calculated at the statutory PRC corporate income tax ("CIT") rate of 25%. Certain subsidiaries of the Group are entitled to preferential tax treatments of reduction in the CIT rate to 15% or 2.5%.

The share of tax attributable to associates amounting to positive HK$64,000 (2021: negative HK$2,000) is included in "Share of (losses)/profits of associates" in the consolidated statement of profit or loss.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates are as follows:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **HK$'000** | **%** | HK$'000 | % |
| Profit before tax | **154,225** | | 43,198 | |
| Tax at the statutory tax rate | **41,391** | **26.8** | 9,658 | 22.4 |
| Lower tax rate for specific provinces or enacted by local authority | **(18,862)** | **(12.2)** | (4,919) | (11.4) |
| Adjustment in respect of current tax of previous periods | **(4,037)** | **(2.6)** | 3,042 | 7.0 |
| Effect on changes in tax rates | **43,523** | **28.2** | (565) | (1.3) |
| Profits attributable to associates | **64** | **–** | (2) | – |
| Income not subject to tax | **(354)** | **(0.2)** | (2,832) | (6.6) |
| Expenses not deductible for tax | **7,176** | **4.7** | 6,081 | 14.1 |
| Research and development super deduction | **(20,445)** | **(13.3)** | (18,776) | (43.5) |
| Tax losses utilised from previous periods | **(8)** | **–** | (4) | – |
| Temporary difference not recognised | **15,781** | **10.2** | – | – |
| Tax losses not recognised | **55,245** | **35.8** | 8,031 | 18.6 |
| Tax credit at the Group's effective rate | **119,474** | **77.5** | (286) | (0.7) |

## 11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,199,746,993 (2021: 1,199,746,993) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

## 12. PROPERTY, PLANT AND EQUIPMENT

**31 December 2022**

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Machinery and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2022: | | | | | | |
| Cost or valuation | 287,818 | 19,659 | 50,047 | 10,037 | 7,397 | 374,958 |
| Accumulated depreciation | – | (12,230) | (42,549) | (4,332) | (6,378) | (65,489) |
| Net carrying amount | 287,818 | 7,429 | 7,498 | 5,705 | 1,019 | 309,469 |
| At 1 January 2022, net of accumulated depreciation | 287,818 | 7,429 | 7,498 | 5,705 | 1,019 | 309,469 |
| Additions | – | 2,136 | 3,037 | 10 | – | 5,183 |
| Disposals | – | – | (80) | (116) | – | (196) |
| Transfers to inventory | – | – | – | (928) | – | (928) |
| Deficit on revaluation | (14,183) | – | – | – | – | (14,183) |
| Depreciation provided during the year *(note 6)* | (10,232) | (3,668) | (3,954) | (971) | (326) | (19,151) |
| Transfers to investment properties | (4,188) | – | – | – | – | (4,188) |
| Exchange realignment | (18,304) | (326) | (585) | (405) | (74) | (19,694) |
| At 31 December 2022, net of accumulated depreciation | 240,911 | 5,571 | 5,916 | 3,295 | 619 | 256,312 |
| At 31 December 2022: | | | | | | |
| Cost or valuation | 240,911 | 20,961 | 44,167 | 7,213 | 6,013 | 319,265 |
| Accumulated depreciation | – | (15,390) | (38,251) | (3,918) | (5,394) | (62,953) |
| Net carrying amount | 240,911 | 5,571 | 5,916 | 3,295 | 619 | 256,312 |

## 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

31 December 2021

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Machinery and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2021: | | | | | | |
| Cost or valuation | 313,921 | 16,657 | 46,063 | 18,956 | 7,656 | 403,253 |
| Accumulated depreciation | – | (10,513) | (39,700) | (10,327) | (6,641) | (67,181) |
| Net carrying amount | 313,921 | 6,144 | 6,363 | 8,629 | 1,015 | 336,072 |
| At 1 January 2021, net of accumulated depreciation | 313,921 | 6,144 | 6,363 | 8,629 | 1,015 | 336,072 |
| Additions | – | 3,893 | 5,666 | 10 | 342 | 9,911 |
| Disposals | – | – | (287) | (1,471) | – | (1,758) |
| Deficit on revaluation | (22,150) | – | – | – | – | (22,150) |
| Depreciation provided during the year *(note 6)* | (11,044) | (2,664) | (4,443) | (1,669) | (368) | (20,188) |
| Exchange realignment | 7,091 | 56 | 199 | 206 | 30 | 7,582 |
| At 31 December 2021, net of accumulated depreciation | 287,818 | 7,429 | 7,498 | 5,705 | 1,019 | 309,469 |
| At 31 December 2021: | | | | | | |
| Cost or valuation | 287,818 | 19,659 | 50,047 | 10,037 | 7,397 | 374,958 |
| Accumulated depreciation | – | (12,230) | (42,549) | (4,332) | (6,378) | (65,489) |
| Net carrying amount | 287,818 | 7,429 | 7,498 | 5,705 | 1,019 | 309,469 |

## 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's land and buildings consist of one residential property and one commercial property in the PRC and certain commercial properties and car parking spaces in Hong Kong. The directors of the Company have determined that the land and buildings consist of three classes of asset, i.e., commercial properties, residential property and car parking spaces, based on the nature, characteristics and risks of each property. The Group's land and buildings were revalued on 31 December 2022 and 2021 based on valuations performed by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK$240,911,000 and HK$287,818,000, respectively. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's land and buildings. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$15,284,000 (2021: HK$17,755,000).

At 31 December 2022 and 2021, none of the Group's land and buildings was pledged to secure general banking facilities granted to the Group.

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's land and buildings:

| | **Fair value measurement as at 31 December 2022 using** | | | |
|---|---|---|---|---|
| Recurring fair value measurement for: | **Quoted prices in active markets (Level 1) HK$'000** | **Significant observable inputs (Level 2) HK$'000** | **Significant unobservable inputs (Level 3) HK$'000** | **Total HK$'000** |
| Commercial properties | **–** | **–** | **54,190** | **54,190** |
| Residential properties | **–** | **–** | **182,591** | **182,591** |
| Car parking spaces | **–** | **–** | **4,130** | **4,130** |
| | **–** | **–** | **240,911** | **240,911** |

## 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### Fair value hierarchy *(continued)*

| | Fair value measurement as at 31 December 2021 using | | | |
|---|---|---|---|---|
| Recurring fair value measurement for: | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Commercial properties | – | – | 61,540 | 61,540 |
| Residential properties | – | – | 219,895 | 219,895 |
| Car parking spaces | – | – | 6,383 | 6,383 |
| | – | – | 287,818 | 287,818 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2021: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | **Commercial properties** HK$'000 | **Residential properties** HK$'000 | **Car parking spaces** HK$'000 |
|---|---|---|---|
| Carrying amount at 1 January 2021 | 62,150 | 245,441 | 6,330 |
| Net gain/(loss) from a fair value adjustment recognised in other comprehensive income | 1,625 | (24,039) | 264 |
| Depreciation provided during the year | (2,235) | (8,598) | (211) |
| Exchange realignment | – | 7,091 | – |
| Carrying amount at 31 December 2021 and 1 January 2022 | **61,540** | **219,895** | **6,383** |
| Net (loss)/gain from a fair value adjustment recognised in other comprehensive income | **(2,828)** | **(11,485)** | **130** |
| Transfers to investment properties | **(2,060)** | **–** | **(2,128)** |
| Depreciation provided during the year | **(2,462)** | **(7,515)** | **(255)** |
| Exchange realignment | **–** | **(18,304)** | **–** |
| Carrying amount at 31 December 2022 | **54,190** | **182,591** | **4,130** |

## 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### Fair value hierarchy *(continued)*

Below is a summary of the valuation techniques used and the key inputs to the valuation of land and buildings:

| | Valuation techniques | Significant unobservable inputs | Range 2022 | Range 2021 |
|---|---|---|---|---|
| Commercial properties | Market approach | Adjustment on market unit price (per sq.m.) | **–35.8% to –3.8%** | –32.1% to –0.5% |
| Residential properties | Market approach | Adjustment on market unit price (per sq.m.) | **–25.6% to –11.50%** | –21.0% to –10.50% |
| | Income approach | Adjustment on market rental (per sq.m. and per month) | **–12.0% to –8.0%** | –10.0% to –9.9% |
| | | Adopted yield | **1.9%** | 1.7% |
| Car parking spaces | Market approach | Adjustment on market unit price (per sq.m.) | **–6.9% to 3.0%** | –2.5% to 6.0% |

Under the market approach, fair value is estimated based on the unit prices of comparable properties with certain adjustments made to reflect the differences in location, neighbourhood, environment, facilities, etc. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values. Physical, locational and economical characteristics are important criteria to be analysed when comparing such comparable properties against the subject properties.

The adjustment on the market unit price is determined by referring to the differences of the subject properties against the comparable properties in terms of time, building facilities, floor, view, size, loading and the listing nature of the comparable properties.

A significant increase/(decrease) in the unit price of comparable properties in isolation would result in a significant increase/(decrease) in the fair value of the land and buildings. A significant increase/(decrease) in a positive adjustment or a significant decrease/(increase) in a negative adjustment on the unit price would result in a significant increase/(decrease) in the fair value of the land and buildings.

Under the income approach, fair value is estimated by capitalising the adjusted market rental income at an adjusted market capitalisation rate. Market rental and the market capitalisation rate are determined by making reference to market listing prices and rentals of comparable properties.

The adjustment on market rental is determined by referring to the differences of the subject property against the comparable properties in terms of building facilities, size, floor and the listing nature of the comparable properties. The adjustment on the market capitalisation rate is determined by referring to the class of comparable properties.

## 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

**Fair value hierarchy** *(continued)*

A significant increase/(decrease) in market rental in isolation would result in a significant increase/(decrease) in the fair value of the land and buildings. A significant increase/(decrease) in a positive adjustment or a significant decrease/(increase) in a negative adjustment on market rental would result in a significant increase/(decrease) in the fair value of the land and buildings. A significant increase/(decrease) in the capitalisation rate in isolation would result in a significant decrease/(increase) in the fair value of the land and buildings. A significant increase/(decrease) in the adjustment to the capitalisation rate in isolation would result in a significant decrease/(increase) in the fair value of the land and buildings.

## 13. INVESTMENT PROPERTIES

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **146,969** | 142,923 |
| Net (losses)/gains from a fair value adjustment *(note 6)* | **(11,541)** | 3,810 |
| Transfers from owner-occupied property *(note 12)* | **4,188** | – |
| Exchange realignment | **(702)** | *236* |
| Carrying amount at 31 December | **138,914** | 146,969 |

The Group's investment properties consist of certain commercial properties, residential properties and car parking spaces in Hong Kong and one commercial property and one residential property in the PRC. The directors of the Company have determined that the investment properties consist of three classes of asset, i.e., commercial, residential and car parking spaces, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2022 and 2021 based on valuations performed by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK$138,914,000 and HK$146,969,000, respectively. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further details of which are included in note 14 to the financial statements.

At 31 December 2022, certain of the Group's investment properties with a carrying value of approximately HK$71,547,000 (2021: HK$77,769,000) were pledged to secure general banking facilities granted to the Group (note 27).

Further particulars of the Group's investment properties are included on pages 156 to 157 of the annual report.

## 13. INVESTMENT PROPERTIES *(continued)*

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| | Fair value measurement as at 31 December 2022 using | | | |
|---|---|---|---|---|
| Recurring fair value measurement for: | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Commercial properties | – | – | 112,492 | 112,492 |
| Residential properties | – | – | 21,382 | 21,382 |
| Car parking spaces | – | – | 5,040 | 5,040 |
| | – | – | 138,914 | 138,914 |

| | Fair value measurement as at 31 December 2021 using | | | |
|---|---|---|---|---|
| Recurring fair value measurement for: | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Commercial properties | – | – | 119,589 | 119,589 |
| Residential properties | – | – | 24,252 | 24,252 |
| Car parking spaces | – | – | 3,128 | 3,128 |
| | – | – | 146,969 | 146,969 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2021: Nil).

## 13. INVESTMENT PROPERTIES *(continued)*

### Fair value hierarchy *(continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | Commercial properties HK$'000 | Residential properties HK$'000 | Car parking spaces HK$'000 |
|---|---|---|---|
| Carrying amount at 1 January 2021 | 116,273 | 23,660 | 2,990 |
| Net gains from a fair value adjustment recognised in profit or loss | 3,102 | 570 | 138 |
| Exchange realignment | 214 | 22 | – |
| Carrying amount at 31 December 2021 and 1 January 2022 | **119,589** | **24,252** | **3,128** |
| Net losses from a fair value adjustment recognised in profit or loss | **(8,521)** | **(2,804)** | **(216)** |
| Transfers from owner-occupied property | **2,060** | **–** | **2,128** |
| Exchange realignment | **(636)** | **(66)** | **–** |
| Carrying amount at 31 December 2022 | **112,492** | **21,382** | **5,040** |

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| | Valuation techniques | Significant unobservable inputs | Range 2022 | Range 2021 |
|---|---|---|---|---|
| Commercial properties | Income approach | Adjustment on market unit price (per sq.m.) | **–39.0% to –19.7%** | –35.3% to –2.5% |
| | | Adopted yield | **3.1% to 5.9%** | 3.0% to 6.2% |
| | Market approach | Adjustment on market unit price (per sq.m.) | **–45.7% to –3.8%** | –32.0% to –0.6% |
| Residential properties | Income approach | Adjustment on market unit price (per sq.m.) | **–9.2% to 4.9%** | –38.2% to 7.4% |
| | | Adopted yield | **2.2% to 2.4%** | 1.6% to 5.3% |
| | Market approach | Adjustment on market unit price (per sq.m.) | **–45.1% to 2.1%** | not applicable |
| Car parking spaces | Income approach | Adjustment on market unit price (per sq.m.) | **–12.7% to –2.2%** | –6.2% to 3.2% |
| | | Adopted yield | **2.2% to 3.1%** | 2.1% to 3.0% |

## 13. INVESTMENT PROPERTIES *(continued)*

### Fair value hierarchy *(continued)*

Under the income approach, fair value is estimated by capitalising the current rental income and the reversionary value of the properties after tenancies expire and by referring to market sales transactions after making relevant adjustments.

The adjustment on the market unit price is determined by referring to the differences of the subject properties against the comparable properties in terms of time, size, view, floor and floor loading. The yields adopted are determined by referring to the current yields of the subject properties and the market yields published by the Rating and Valuation Department regarding the respective property types.

A significant increase/(decrease) in the market unit price in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in a positive adjustment or a significant decrease/(increase) in a negative adjustment on the market unit price would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the yield in isolation would result in a significant decrease/(increase) in the fair value of the investment properties.

Under the market approach, fair value is estimated based on the unit prices of comparable properties with certain adjustments made to reflect the differences in location, neighbourhood, environment, facilities, etc. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values. Physical, locational and economical characteristics are important criteria to be analysed when comparing such comparable properties against the subject properties.

The adjustment on the market unit price is determined by referring to the differences of the subject properties against the comparable properties in terms of time, building facilities, floor, view, size, loading and the listing nature of the comparable properties.

A significant increase/(decrease) in the unit price of comparable properties in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in a positive adjustment or a significant decrease/(increase) in a negative adjustment on the unit price would result in a significant increase/(decrease) in the fair value of the investment properties.

## 14. LEASES

### The Group as a lessee

The Group leases certain of its offices and warehouse properties under operating lease arrangements, which are negotiated for terms ranging from nine months to three years.

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

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **6,257** | 2,550 |
| Additions | **2,561** | 6,981 |
| Depreciation charge | **(3,726)** | (2,687) |
| Revision of a lease term arising from a change in the non-cancellable period of a lease | **–** | (720) |
| Exchange realignment | **(482)** | 133 |
| Carrying amount at 31 December | **4,610** | 6,257 |

#### (b) Lease liabilities

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

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **5,712** | 2,162 |
| New leases | **2,500** | 5,800 |
| Accretion of interest recognised during the year | **318** | 169 |
| Payments | **(3,735)** | (1,877) |
| Revision of a lease term arising from a change in the non-cancellable period of a lease | **–** | (576) |
| Exchange realignment | **(447)** | 34 |
| Carrying amount at 31 December | **4,348** | 5,712 |

## 14. LEASES *(continued)*

### The Group as a lessee *(continued)*

***(b)*** ***Lease liabilities*** *(continued)*

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Analysed into: | | |
| Current portion | **3,246** | 4,261 |
| Non-current portion | **1,102** | 1,451 |
| Total | **4,348** | 5,712 |

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

***(c)*** The amounts recognised in profit or loss in relation to leases are as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Interest on lease liabilities | **318** | 169 |
| Depreciation charge of right-of-use assets | **3,726** | 2,687 |
| Expense relating to short-term leases | **22,293** | 24,720 |
| Total amount recognised in profit or loss | **26,337** | 27,576 |

***(d)*** The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 32(c) and 34, respectively, to the financial statements.

***(e)*** The Group has no termination options expected to be exercised.

### The Group as a lessor

The Group leases its investment properties (note 13) under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits. Rental income recognised by the Group during the year was HK$4,570,000 (2021: HK$4,976,000), details of which are included in note 5 to the financial statements.

At 31 December 2022 and 2021, the undiscounted lease payments receivable by the Group in future periods under non- cancellable operating leases with its tenants are as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Within one year | **3,894** | 4,379 |
| After one year but within two years | **451** | 3,223 |
| | **4,345** | 7,602 |

## 15. INVESTMENTS IN ASSOCIATES

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Share of net assets | **2,435** | 2,972 |
| Due from associates | **31** | 31 |
| | **2,466** | 3,003 |

The amounts due from associates are unsecured, interest-free and repayable on demand. In the opinion of the Company's directors, the amounts due from associates are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the associates. There was no recent history of default and past due amounts for loans to associates. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

The Group's shareholdings in the associates are held through certain wholly-owned subsidiaries of the Company.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Share of the associates' (losses)/profits for the year | **(321)** | 11 |
| Share of the associates' other comprehensive loss | **(216)** | (119) |
| Share of the associates' total comprehensive loss | **(537)** | (108) |
| Aggregate carrying amount of the Group's investments in associates | **2,466** | 3,003 |

## 16. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| **Equity investments at fair value through other comprehensive income** | | |
| Listed equity investments, at fair value: | | |
| PUC Berhad | **383** | 1,667 |

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2022, the gross loss in respect of the Group's equity investments at fair value through other comprehensive income recognised in other comprehensive loss amounted to HK$1,209,000 (2021: HK$172,000).

## 17. INTANGIBLE ASSETS

| | Patents and acquired software<br>HK$'000 | Development expenditure on media software<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| At 31 December 2021 | | | |
| Cost | 2,446 | 11,045 | 13,491 |
| Accumulated amortisation and impairment | (2,446) | (11,045) | (13,491) |
| Net carrying amount | – | – | – |

## 18. INVENTORIES

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Finished goods | **76,873** | 78,961 |
| Work in progress | **11,561** | 31,189 |
| | **88,434** | 110,150 |

## 19. TRADE AND BILLS RECEIVABLES

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Trade receivables | **210,326** | 190,509 |
| Bills receivable | **13,574** | 16,207 |
| Impairment | **(43,509)** | (41,662) |
| | **180,391** | 165,054 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Payment is generally due within 90 days from the invoice date. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

Included in the Group's trade and bills receivables are amounts due from New Founder Holdings Development Co., Ltd. ("New Founder"), a substantial shareholder of the Company, and its subsidiaries (collectively "New Founder Group") of HK$350,000 (2021: due from Peking University Founder Group Company Limited ("Peking Founder") and its subsidiaries (collectively "Peking Founder Group") of HK$201,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

An ageing analysis of the trade receivables, based on the invoice date and net of loss allowance, is as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Within 6 months | **135,922** | 116,313 |
| 7 to 12 months | **13,281** | 11,133 |
| 13 to 24 months | **12,185** | 17,464 |
| Over 24 months | **5,429** | 3,937 |
| | **166,817** | 148,847 |

## 19. TRADE AND BILLS RECEIVABLES *(continued)*

The movements in the loss allowance for impairment of trade receivables are as follows:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| At beginning of year | **41,662** | 49,612 |
| Impairment/(reversal of impairment) losses, net *(note 6)* | **6,494** | (680) |
| Amount written off as uncollectible | **(1,960)** | (8,226) |
| Exchange realignment | **(2,687)** | 956 |
| At end of year | **43,509** | 41,662 |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing of groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The increase in the loss allowance of HK$1,847,000 was a result of an increase in credit risk exposure of age groups. The individually impaired trade receivables are related to customers that were credit-impaired or in default of payments and no receivable is expected to be recovered.

Set out below is the information about the credit risk exposure on the Group's trade receivables:

**As at 31 December 2022**

| | **Ageing** | | | | |
|---|---|---|---|---|---|
| | **Less than 6 months** | **7 to 12 months** | **13 to 24 months** | **Over 24 months** | **Total** |
| Impairment of credit loss assessed by credit risk portfolio | | | | | |
| Expected credit loss rate | **2.38%** | **9.97%** | **25.95%** | **84.77%** | **19.06%** |
| Gross carrying amount (HK$'000) | **139,237** | **14,752** | **16,455** | **35,654** | **206,098** |
| Expected credit losses (HK$'000) | **3,315** | **1,471** | **4,270** | **30,225** | **39,281** |
| Impairment of credit loss assessed individually | | | | | |
| Expected credit loss rate | **100%** | **100%** | **100%** | **100%** | **100%** |
| Gross carrying amount (HK$'000) | **–** | **–** | **445** | **3,783** | **4,228** |
| Expected credit losses (HK$'000) | **–** | **–** | **445** | **3,783** | **4,228** |

## 19. TRADE AND BILLS RECEIVABLES *(continued)*

As at 31 December 2021

| | Ageing | | | | |
|---|---|---|---|---|---|
| | Less than 6 months | 7 to 12 months | 13 to 24 months | Over 24 months | Total |
| Impairment of credit loss assessed by credit risk portfolio | | | | | |
| Expected credit loss rate | 2.10% | 8.75% | 22.98% | 86.55% | 18.64% |
| Gross carrying amount (HK$'000) | 118,808 | 12,201 | 22,674 | 29,265 | 182,948 |
| Expected credit losses (HK$'000) | 2,495 | 1,068 | 5,210 | 25,328 | 34,101 |
| Impairment of credit loss assessed individually | | | | | |
| Expected credit loss rate | 100% | 100% | 100% | 100% | 100% |
| Gross carrying amount (HK$'000) | – | 159 | 1,673 | 5,729 | 7,561 |
| Expected credit losses (HK$'000) | – | 159 | 1,673 | 5,729 | 7,561 |

### Transferred financial assets that are derecognised in their entirety

At 31 December 2022, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers at the amount of HK$112,000 (2021: Nil). The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Company's directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's continuing involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Company's directors, the fair values of the Group's continuing involvement in the derecognised Bills are not significant.

During the year ended 31 December 2022, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

## 20. CONTRACT ASSETS

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Contract assets arising from: | | |
| Sale of software development and system integration services | – | 4,814 |
| Sale of information products and software | 17,455 | 11,910 |
| | 17,455 | 16,724 |
| Impairment | (259) | (1,698) |
| | 17,196 | 15,026 |

Contract assets are initially recognised for revenue earned from the sale of information products and software and the sales of software development and system integration services as the receipt of consideration is conditional on successful delivery of goods or completion of services. Included in contract assets for the sale of information products and software, and the sales of software development and system integration services also comprised retention receivables. Upon delivery of goods or services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2022 was the result of the increase in the ongoing sales of information products and software at the end of each the year.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Within one year | 12,272 | 12,817 |
| After one year | 5,183 | 3,907 |
| Total contract assets | 17,455 | 16,724 |

The movements in the loss allowance for impairment of contract assets are as follows:

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| At beginning of year | 1,698 | 4,771 |
| Impairment/(reversal of impairment) losses, net *(note 6)* | 31 | (2,055) |
| Amount written off | (1,324) | (1,126) |
| Exchange realignment | (146) | 108 |
| At end of year | 259 | 1,698 |

## 20. CONTRACT ASSETS *(continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on the ageing of trade receivables for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The individually impaired contract assets are related to customers that were credit-impaired or in default of payments and no receivable is expected to be recovered.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

| | **2022** | 2021 |
|---|---|---|
| Expected credit loss rate | **1.5%** | 10.2% |
| Gross carrying amount (HK$'000) | **17,455** | 16,724 |
| Expected credit losses (HK$'000) | **259** | 1,698 |

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2022**<br>**HK$'000** | 2021<br>HK$'000 |
|---|---|---|
| Prepayments | **27,832** | 29,327 |
| Deposits and other receivables | **35,033** | 48,613 |
| Loan receivables *(Note)* | **285,081** | 461,794 |
| | **347,946** | 539,734 |
| Impairment allowance | | |
| – Deposits and other receivables | **(7,238)** | (6,926) |
| – Loan receivables *(Note)* | **(285,081)** | (461,794) |
| | **55,627** | 71,014 |

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

The movements in the loss allowance for impairment of deposits, other receivables and loan receivables are as follows:

| | *Note* | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|---|
| At beginning of year | | **468,720** | 454,861 |
| (Reversal of impairment)/impairment losses recognised | 6 | **(141,859)** | 1,590 |
| Amount written off as uncollectible | | **(672)** | (804) |
| Exchange realignment | | **(33,870)** | 13,073 |
| At 31 December | | **292,319** | 468,720 |

Deposits and other receivables mainly represent rental deposits and deposits with customers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

Included in the Group's other receivables as at 31 December 2022 are amounts due from New Founder Group of approximately HK$167,000 (2021: due from Peking Founder Group of nil).

*Note:* As at 31 December 2019, an entrusted loan receivable in a principal amount of RMB370,000,000 (approximately HK$412,180,000) and the amount of related interest of RMB5,591,000 (equivalent to approximately HK$6,228,000) (collectively the "Outstanding Entrusted Loan") were receivable from Peking Founder. On 18 February 2020, the Company received a notification letter from Peking Founder, regarding a notice received by Peking Founder from The First Intermediate People's Court of Beijing (the "Court"). According to such notice, Bank of Beijing Co., Ltd. applied to the Court for a restructuring of Peking Founder. On 19 February 2020, according to the civil order and decision letter received by Peking Founder from the Court, the Court decided to accept the application made by Bank of Beijing Co., Ltd. for the initiation of restructuring procedure against Peking Founder and appointed Peking Founder's liquidation team as the administrator of Peking Founder. On 3 March 2020, the Company declared that the Outstanding Entrusted Loan became due. According to the relevant laws and regulations about judicial restructuring, Peking Founder is not allowed to settle individual debts during the restructuring period, including the Outstanding Entrusted Loan. Considering the deterioration of financial condition and repayment ability of Peking Founder and the possibility of recovering the balances, management of the Company determined that the recoverability was remote. Therefore, a full provision for impairment was made on the Outstanding Entrusted Loan in 2019.

According to the restructuring proposal (the "Proposal") of Peking University Founder Group Company Limited, Peking University Founder Information Industry Group Co., Ltd., Founder Industry Holdings Co., Ltd., Peking University Healthcare Industry Group Co., Ltd., and Peking University Resource Group Limited (collectively "the Five Companies including Peking Founder"), among the equity assets, debt assets and other assets that the Five Companies including Peking Founder have the right to dispose, the majority were used to set up New Founder and its six subordinate business platform companies. The equity interest of New Founder was transferred to Ping An Life Insurance Company of China, Ltd and other new shareholders. The equity interest of the Company originally indirectly held by Peking Founder was transferred to and is held indirectly by Ping An Life Insurance Company of China, Ltd and other new shareholders.

Under the Proposal, the entrusted loans lent to Peking Founder were settled on 11 March 2022 as to the amount of RMB993,000 (equivalent to approximately HK$1,159,000) and, on 28 December 2022, as to the amount of RMB119,778,000 (equivalent to approximately HK$139,756,000). The provision for impairment in the amount of RMB120,771,000 (equivalent to approximately HK$140,915,000) was reversed in 2022.

As at 31 December 2022, the restructuring of Peking Founder was still in progress and the recoverability of the remaining Outstanding Entrusted Loan was uncertain, management of the Company considered the remaining provision for impairment remained unchanged.

The principal amount of RMB249,229,000 (equivalent to approximately HK$279,012,000) (2021: RMB370,000,000 and equivalent to approximately HK$452,511,000) and amount of related interest of RMB5,591,000 (equivalent to approximately HK$6,259,000)(2021: RMB5,591,000 and equivalent to approximately HK$6,837,000) included in the above balances are under the continuing connected transaction as set out in the report of the directors.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Listed equity investments, at market value | **1,060** | 1,065 |
| Listed derivative investments, at market value | **21** | 129 |
| | **1,081** | 1,194 |

The above equity investments at 31 December 2022 were classified as financial assets at fair value through profit or loss as they were held for trading.

## 23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Cash and bank balances | **625,762** | 477,731 |
| Time deposits | **112,558** | 128,525 |
| | **738,320** | 606,256 |
| Less: Pledged time deposits | | |
| Pledged for long term letters of guarantee | **(4,284)** | (2,510) |
| Pledged for short term letters of guarantee | **(721)** | (4,580) |
| Cash and cash equivalents | **733,315** | 599,166 |

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$614,731,000 (2021: HK$455,564,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 24. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date or bills payment date, is as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Within 6 months | **48,307** | 54,028 |
| 7 to 12 months | **2,698** | 3,697 |
| 13 to 24 months | **882** | 1,956 |
| Over 24 months | **3,710** | 4,488 |
| | **55,597** | 64,169 |

Included in the Group's trade and bills payables are amounts due to New Founder Group of approximately HK$402,000 (2021: due to Peking Founder Group of approximately HK$915,000), which are repayable on agreed terms similar to those offered by other third party suppliers.

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

## 25. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2022 and 31 December 2021 are as follows:

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Sale of information products and software | **71,887** | 70,913 |
| Sale of software development and system integration services | **–** | 70 |
| | **71,887** | 70,983 |

Contract liabilities include short-term advances received for delivery of information products and software and rendering of software development and system integration services and amounts due to contract customers. The increase in contract liabilities in 2022 was mainly due to the increase in the sale of software at the end of the year.

## 26. OTHER PAYABLES AND ACCRUALS

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Accrued salaries and bonuses | **103,147** | 113,467 |
| Subcontracting fee | **57,937** | 78,666 |
| Other tax payables | **25,953** | 19,613 |
| Deferred revenue | **14,889** | 16,268 |
| Due to Peking Founder Group | **39,552** | 29,078 |
| Others | **14,701** | 16,418 |
| | **256,179** | 273,510 |

Other payables are non-interest-bearing and have an average term of three months.

## 27. INTEREST-BEARING BANK BORROWINGS

The Group's trade finance facilities amounting to nil (2021: nil), of which nil (2021: nil) had been utilised as at the end of the reporting year. As at 31 December 2022, the trade finance facilities are secured by the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of HK$71,547,000 (2021: HK$77,769,000).

## 28. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

| | Revaluation of properties HK$'000 | Temporary difference on depreciation of properties HK$'000 | Accelerated amortisation of intangible assets HK$'000 | Accrued expenses HK$'000 | Losses available for offsetting future taxable profits HK$'000 | Impairment of assets HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2021 | (78,411) | 10,836 | 778 | 4,218 | 6,778 | 116,153 | 3,890 | 64,242 |
| Deferred tax credited/(charged) to the statement of profit or loss for the year *(note 10)* | (18) | 2,036 | (199) | 4,684 | 116 | (1,555) | (933) | 4,131 |
| Deferred tax credited to other comprehensive income during the year | 5,895 | – | – | – | – | – | – | 5,895 |
| Exchange realignment | (2,179) | 423 | 20 | 200 | – | 3,397 | 100 | 1,961 |
| At 31 December 2021 and 1 January 2022 | **(74,713)** | **13,295** | **599** | **9,102** | **6,894** | **117,995** | **3,057** | **76,229** |
| Deferred tax credited/(charged) to the statement of profit or loss for the year *(note 10)* | **15** | **1,727** | **(572)** | **(8,683)** | **(368)** | **(112,572)** | **(2,916)** | **(123,369)** |
| Deferred tax credited to other comprehensive income during the year | **3,289** | **–** | **–** | **–** | **–** | **–** | **–** | **3,289** |
| Exchange realignment | **5,936** | **(1,400)** | **(27)** | **(419)** | **–** | **(5,423)** | **(141)** | **(1,474)** |
| At 31 December 2022 | **(65,473)** | **13,622** | **–** | **–** | **6,526** | **–** | **–** | **(45,325)** |

The Group reviewed the carrying amounts of deferred tax assets and reduced the carrying amounts of deferred tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to enable the assets to be recovered. In making such determination, the Group evaluates a variety of factors including the Group's operating history, accumulated tax losses, existence of taxable temporary differences, future taxable profit and reversal periods.

For presentation purposes, at the end of the reporting period, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **–** | 130,753 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **(45,325)** | (54,524) |
| | **(45,325)** | 76,229 |

## 28. DEFERRED TAX *(continued)*

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

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| Tax losses | **777,300** | 410,990 |
| Deductible temporary differences | **145,315** | 60,295 |
| | **922,615** | 471,285 |

The Group has tax losses arising in Hong Kong of approximately HK$352,120,000 (2021: HK$337,191,000), that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2022, the Group had tax losses arising in Mainland China of HK$425,180,000 (2021: HK$73,799,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

At 31 December 2022, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Company's directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$506,287,000 at 31 December 2022 (2021: HK$422,534,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 29. SHARE CAPITAL

### Shares

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Authorised: | | |
| 2,100,000,000 (2021: 2,100,000,000) ordinary shares of HK$0.10 each | **210,000** | 210,000 |
| Issued and fully paid: | | |
| 1,199,746,993 (2021: 1,199,746,993) ordinary shares of HK$0.10 each | **119,975** | 119,975 |

There were no movements in the Company's issued share capital during the years ended 31 December 2022 and 2021.

## 30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, senior management, employees of the Group, any substantial shareholders or any companies controlled by a substantial shareholder, any one or entity, who in the sole opinion of the Board, has contributed or will contribute to the Group or any substantial shareholder. The Scheme became effective on 31 May 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue unless (i) a circular is despatched to the shareholders; (ii) the shareholders approve the grant of the share options in excess of the 1% limit referred to in this paragraph; and (iii) the relevant eligible person and his associates shall abstain from voting. The number and terms (including the exercise price) of share options to be granted to such eligible person(s) must be fixed before shareholders' approval.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

## 30. SHARE OPTION SCHEME *(continued)*

The offer of a grant of share options may be accepted within 30 days inclusive of the day on which such offer was made, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on such date or after the date on which the share option is granted as the board may determine in granting the share options and expires at the close of business on such date as the board may determine in granting the share options but in any event shall not exceed 10 years from the date of grant (which is the date of offer of grant if the offer for the grant of the share option is accepted).

There is no specified minimum period under the Scheme for which a share option must be held or the performance target which must be achieved before a share option can be exercised under the terms of the Scheme.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted during the years ended 31 December 2022 and 2021 and there were no outstanding options as at 31 December 2022 and 2021.

## 31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 74 and 75 of the financial statements.

The Group's share premium account includes the premium arising from the issue of new shares in prior years, and amount transferred from share-based compensation reserve upon exercise of share options in prior years. The application of the share premium account is governed by the Companies Act 1981 of Bermuda.

The Group's contributed surplus represents the excess of the nominal value of the shares and the share premium account of Founder HK acquired pursuant to the Group reorganisation on 31 March 2000 over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of each PRC subsidiary in accordance with its articles of association.

## 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$2,500,000 (2021: HK$5,800,000) and HK$2,500,000 (2021: HK$5,800,000), respectively, in respect of lease arrangements for offices and warehouse properties.

### (b) Changes in liabilities arising from financing activities

**2022**

| | **Lease liabilities HK$'000** |
|---|---|
| At 1 January 2022 | **5,712** |
| Changes from financing cash flows | **(3,417)** |
| New leases | **2,500** |
| Interest expense | **318** |
| Interest paid classified as operating cash flows | **(318)** |
| Foreign exchange movement | **(447)** |
| At 31 December 2022 | **4,348** |

2021

| | Lease liabilities HK$'000 |
|---|---|
| At 1 January 2021 | 2,162 |
| Changes from financing cash flows | (1,708) |
| New leases | 5,800 |
| Interest expense | 169 |
| Interest paid classified as operating cash flows | (169) |
| Revision of a lease term arising from a change in the non-cancellable period of a lease | (576) |
| Foreign exchange movement | 34 |
| At 31 December 2021 | 5,712 |

## 32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

### (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within operating activities | **8,870** | 10,862 |
| Within financing activities | **3,417** | 1,708 |
| | **12,287** | 12,570 |

## 33. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2021: Nil).

## 34. COMMITMENTS

(a) At the end of the reporting period, the Group did not have any significant commitments.

(b) The Group has various lease contracts that have not yet commenced as at 31 December 2022. The future lease payments for these non-cancellable lease contracts are HK$161,000 (2021: HK$22,217,000) due within one year, and nil (2021: HK$951,000) due in the second to fifth years, inclusive.

# 35. RELATED PARTY TRANSACTIONS

## (I) Transactions with related parties

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|
| Sales of goods to Peking Founder Group | *(i)* | **5,343** | 3,168 |
| Sales of goods to Ping An Group | *(i)* | **7** | – |
| Rental and management expense to Peking Founder Group | *(ii)* | **20,082** | 20,712 |
| Purchase of goods from Peking Founder Group | *(i)* | **1,402** | 2,135 |

*Notes:*

(i) These transactions were conducted on the terms agreed between the parties involved.

(ii) The expenses were attributable to the lease agreement and management agreement with Peking Founder Group to lease the premises in Beijing at market price.

The above related party transactions for the current year in respect of items (i) and (ii) also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

## (II) Outstanding balances with related parties

(a) Details of the Group's other receivables and other payables with its related companies as at the end of the reporting period are disclosed in notes 21 and 26 to the financial statements.

(b) Details of the Group's amounts due from its associates as at the end of the reporting period are included in note 15 to the financial statements.

(c) Details of the Group's trade balances with its related companies as at the end of the reporting period are disclosed in notes 19 and 24 to the financial statements.

## (III) Compensation of key management personnel of the Group

| | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|
| Short term employee benefits | **5,031** | 6,253 |
| Pension scheme contributions | **175** | 136 |
| Total compensation paid to key management personnel | **5,206** | 6,389 |

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

## 36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### 2022

***Financial assets***

| | Fair value through profit or loss HK$'000 | Financial assets at amortised cost HK$'000 | Financial assets at fair value through other comprehensive income | | Total HK$'000 |
|---|---|---|---|---|---|
| | | | Debt HK$'000 | Equity HK$'000 | |
| Equity investments at fair value through other comprehensive income | – | – | – | 383 | 383 |
| Contract assets | – | 17,196 | – | – | 17,196 |
| Trade and bills receivables | – | 166,817 | 13,574 | – | 180,391 |
| Financial assets included in prepayments, deposits and other receivables | – | 27,795 | – | – | 27,795 |
| Financial assets at fair value through profit or loss | 1,081 | – | – | – | 1,081 |
| Pledged deposits | – | 5,005 | – | – | 5,005 |
| Cash and cash equivalents | – | 733,315 | – | – | 733,315 |
| | 1,081 | 950,128 | 13,574 | 383 | 965,166 |

***Financial liabilities – financial liabilities at amortised cost***

| | HK$'000 |
|---|---|
| Trade and bills payables | 55,597 |
| Financial liabilities included in other payables and accruals | 112,190 |
| Lease liabilities | 4,348 |
| | 172,135 |

## 36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

**2021**

***Financial assets***

| | Fair value through profit or loss HK$'000 | Financial assets at amortised cost HK$'000 | Financial assets at fair value through other comprehensive income — Debt HK$'000 | Financial assets at fair value through other comprehensive income — Equity HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Equity investments at fair value through other comprehensive income | – | – | – | 1,667 | 1,667 |
| Contract assets | – | 15,026 | – | – | 15,026 |
| Trade and bills receivables | – | 148,847 | 16,207 | – | 165,054 |
| Financial assets included in prepayments, deposits and other receivables | – | 41,687 | – | – | 41,687 |
| Financial assets at fair value through profit or loss | 1,194 | – | – | – | 1,194 |
| Pledged deposits | – | 7,090 | – | – | 7,090 |
| Cash and cash equivalents | – | 599,166 | – | – | 599,166 |
| | 1,194 | 811,816 | 16,207 | 1,667 | 830,884 |

***Financial liabilities – financial liabilities at amortised cost***

| | HK$'000 |
|---|---|
| Trade and bills payables | 64,169 |
| Financial liabilities included in other payables and accruals | 124,160 |
| Lease liabilities | 5,712 |
| | 194,041 |

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair value, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2022** **HK$'000** | 2021 HK$'000 | **2022** **HK$'000** | 2021 HK$'000 |
| **Financial assets** | | | | |
| Equity investments at fair value through other comprehensive income | **383** | 1,667 | **383** | 1,667 |
| Pledged deposits, non-current portion | **4,284** | 2,510 | **4,081** | 2,221 |
| Bills receivable | **13,574** | 16,207 | **13,574** | 16,207 |
| Financial assets at fair value through profit or loss | **1,081** | 1,194 | **1,081** | 1,194 |
| | **19,322** | 21,578 | **19,119** | 21,289 |

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of the pledged deposits and bills receivable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the non-current portion of the pledged deposits as at 31 December 2022 was assessed to be insignificant.

The fair values of listed financial assets at fair value through profit or loss and listed equity investments at fair value through other comprehensive income are based on quoted market prices.

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

***Assets measured at fair value:***

**As at 31 December 2022**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Equity investments at fair value through other comprehensive income | **383** | **–** | **–** | **383** |
| Financial assets at fair value through profit or loss | **1,081** | **–** | **–** | **1,081** |
| Bills receivable | **–** | **13,574** | **–** | **13,574** |
| | **1,464** | **13,574** | **–** | **15,038** |

As at 31 December 2021

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Equity investments at fair value through other comprehensive income | 1,667 | – | – | 1,667 |
| Financial assets at fair value through profit or loss | 1,194 | – | – | 1,194 |
| Bills receivable | – | 16,207 | – | 16,207 |
| | 2,861 | 16,207 | – | 19,068 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2022 and 31 December 2021.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: Nil).

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

**Fair value hierarchy** *(continued)*

***Assets for which fair values are disclosed:***

**As at 31 December 2022**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Pledged deposits, non-current portion | – | 4,081 | – | 4,081 |

As at 31 December 2021

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Pledged deposits, non-current portion | – | 2,221 | – | 2,221 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from monetary assets denominated in currencies other than the functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB, US$ and JPY exchange rates, with all other variables held constant, of the Group's profit before tax (arising from RMB, US$ and JPY denominated financial instruments) for the year:

**2022**

| | **Increase/ (decrease) in profit before tax HK$'000** |
|---|---|
| If HK$ strengthens 1% against RMB | **(847)** |
| If HK$ weakens 1% against RMB | **847** |
| If HK$ strengthens 1% against US$ | **(31)** |
| If HK$ weakens 1% against US$ | **31** |
| If HK$ strengthens 1% against JPY | **(21)** |
| If HK$ weakens 1% against JPY | **21** |

2021

| | Increase/ (decrease) in profit before tax HK$'000 |
|---|---|
| If HK$ strengthens 1% against RMB | (905) |
| If HK$ weakens 1% against RMB | 905 |
| If HK$ strengthens 1% against US$ | (195) |
| If HK$ weakens 1% against US$ | 195 |
| If HK$ strengthens 1% against JPY | (4) |
| If HK$ weakens 1% against JPY | 4 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

#### *Maximum exposure and year-end staging*

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

**As at 31 December 2022**

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | **Stage 1 HK$'000** | **Stage 2 HK$'000** | **Stage 3 HK$'000** | **Simplified approach HK$'000** | **HK$'000** |
| Contract assets* | – | – | – | 17,455 | 17,455 |
| Trade and bills receivables* | 13,574 | – | – | 210,326 | 223,900 |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | 28,579 | – | – | – | 28,579 |
| – Doubtful** | – | 6,454 | 285,081 | – | 291,535 |
| Pledged deposits | | | | | |
| – Not yet past due | 5,005 | – | – | – | 5,005 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 733,315 | – | – | – | 733,315 |
| | 780,473 | 6,454 | 285,081 | 227,781 | 1,299,789 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Credit risk** *(continued)*

***Maximum exposure and year-end staging*** *(continued)*

As at 31 December 2021

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Simplified approach HK$'000 | HK$'000 |
| Contract assets* | – | – | – | 16,724 | 16,724 |
| Trade and bills receivables* | 16,207 | – | – | 190,509 | 206,716 |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | 43,172 | – | – | – | 43,172 |
| – Doubtful** | – | 5,441 | 461,794 | – | 467,235 |
| Pledged deposits | | | | | |
| – Not yet past due | 4,870 | – | – | – | 4,870 |
| – Past due | 2,220 | – | – | – | 2,220 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 599,166 | – | – | – | 599,166 |
| | 665,635 | 5,441 | 461,794 | 207,233 | 1,340,103 |

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 19 and 20 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and lease liabilities. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | **Within 1 year or on demand HK$'000** | **Over 1 year HK$'000** | **2022 Total HK$'000** |
|---|---|---|---|
| Trade and bills payables | **55,597** | **–** | **55,597** |
| Financial liabilities included in other payables and accruals | **112,190** | **–** | **112,190** |
| Lease liabilities | **3,319** | **1,176** | **4,495** |
| | **171,106** | **1,176** | **172,282** |

| | Within 1 year or on demand HK$'000 | Over 1 year HK$'000 | 2021 Total HK$'000 |
|---|---|---|---|
| Trade and bills payables | 64,169 | – | 64,169 |
| Financial liabilities included in other payables and accruals | 124,160 | – | 124,160 |
| Lease liabilities | 4,572 | 1,499 | 6,071 |
| | 192,901 | 1,499 | 194,400 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as financial assets at fair value through profit or loss (note 22) and equity investments at fair value through other comprehensive income (note 16) as at 31 December 2022 and 31 December 2021. The Group's listed investments are listed on the ACE Market of Bursa Malaysia Securities Berhad, New York Stock Exchange, Hong Kong Stock Exchange and the Taiwan Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 1% change in the fair values of the Group's principal equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the equity investments at fair value through other comprehensive income, the impact is deemed to be on equity investments at fair value through other comprehensive income revaluation reserve.

| | **Carrying amount of investments** HK$'000 | **Increase/ (decrease) in profit before tax** HK$'000 | **Increase/ (decrease) in equity*** HK$'000 |
|---|---|---|---|
| **2022** | | | |
| Investments listed in: | | | |
| Malaysia – Equity investments at fair value through other comprehensive income | **383** | **–** | **4** |
| New York – Financial assets at fair value through profit or loss | **275** | **3** | **–** |
| Hong Kong – Financial assets at fair value through profit or loss | **755** | **8** | **–** |
| Malaysia – Financial assets at fair value through profit or loss | **21** | **–** | **–** |
| Taiwan – Financial assets at fair value through profit or loss | **30** | **–** | **–** |
| 2021 | | | |
| Investments listed in: | | | |
| Malaysia – Equity investments at fair value through other comprehensive income | 1,667 | – | 17 |
| New York – Financial assets at fair value through profit or loss | 523 | 5 | – |
| Hong Kong – Financial assets at fair value through profit or loss | 509 | 5 | – |
| Malaysia – Financial assets at fair value through profit or loss | 129 | 1 | – |
| Taiwan – Financial assets at fair value through profit or loss | 33 | – | – |

* Excluding retained profits.

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

The Group monitors capital using a debt to equity ratio, which is interest-bearing bank borrowings and lease liabilities divided by total equity attributable to owners of the parent. The debt to equity ratios as at the end of the reporting periods were as follows:

| | **31 December 2022 HK$'000** | 31 December 2021 HK$'000 |
|---|---|---|
| Lease liabilities *(note 14)* | **4,348** | 5,712 |
| Total equity attributable to owners of the parent | **1,050,068** | 1,093,403 |
| Debt to equity ratio | **0.4%** | 0.5% |

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | **559,088** | 559,088 |
| CURRENT ASSETS | | |
| Prepayments, deposits and other receivables | **359** | 344 |
| Cash and cash equivalents | **1,205** | 1,002 |
| Total current assets | **1,564** | 1,346 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **497** | 2,182 |
| NET CURRENT ASSETS/(LIABILITIES) | **1,067** | (836) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **560,155** | 558,252 |
| NON-CURRENT LIABILITY | | |
| Due to a subsidiary | **220,436** | 215,239 |
| Net assets | **339,719** | 343,013 |
| EQUITY | | |
| Issued capital | **119,975** | 119,975 |
| Reserves | **219,744** | 223,038 |
| Total equity | **339,719** | 343,013 |

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

A summary of the Company's reserves is as follows:

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2021 | 53,597 | 448,209 | (274,225) | 227,581 |
| Total comprehensive loss for the year | – | – | (4,543) | (4,543) |
| At 1 January 2022 | **53,597** | **448,209** | **(278,768)** | **223,038** |
| Total comprehensive loss for the year | **–** | **–** | **(3,294)** | **(3,294)** |
| At 31 December 2022 | **53,597** | **448,209** | **(282,062)** | **219,744** |

The Company's contributed surplus represents the excess of the fair value of the shares of Founder HK acquired pursuant to the Group reorganisation on 31 March 2000 over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981 (as amended), the Company may make distributions to its shareholders out of the contributed surplus in certain circumstances.

## 40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2023.

# PARTICULARS OF INVESTMENT PROPERTIES

31 DECEMBER 2022

| Location | Use | Tenure | Percentage of interest attributable to the Group |
|---|---|---|---|
| Units 1, 2a, 2b, 3a, 3b, 4a, 4b, 5, 6a, 6b, 7a, 7b, 11b,12 and 13 on 14th Floor<br>Cable TV Tower<br>9 Hoi Shing Road<br>Tsuen Wan<br>New Territories<br>Hong Kong | Office premises/ warehouse for rental | Medium term lease | 100 |
| Office car parking space P37 and P38 on 3rd Floor<br>Cable TV Tower<br>9 Hoi Shing Road<br>Tsuen Wan<br>New Territories<br>Hong Kong | Car parking space for rental | Medium term lease | 100 |
| Residential car parking space No. 324 on Podium Level 2<br>Rhine Garden<br>38 Castle Peak Road<br>Sham Tseng<br>New Territories<br>Hong Kong | Car parking space for rental | Medium term lease | 100 |
| Flat B, 29th Floor, Block 3<br>Locwood Court<br>Kingswood Villas<br>1 Tin Wu Road<br>Tin Shui Wai<br>Yuen Long<br>New Territories<br>Hong Kong | Residential premises for rental | Medium term lease | 100 |

31 DECEMBER 2022

| Location | Use | Tenure | Percentage of interest attributable to the Group |
|---|---|---|---|
| Flat B, 8th Floor, Block 2 and car parking space No. 60 on Level 1<br>Dragon Inn Court<br>9 Tsing Ha Lane<br>Tuen Mun<br>New Territories<br>Hong Kong | Residential premises and car parking space for rental | Medium term lease | 100 |
| Flat D, 12th Floor, Block 2<br>Belvedere Garden<br>Phase 2<br>620 Castle Peak Road<br>Tsuen Wan<br>New Territories<br>Hong Kong | Residential premises for rental | Medium term lease | 100 |
| Units 1-7-1, 8-7-1<br>No. 126 Yuzhou Road<br>Jiulongpo District<br>Chongqing<br>China | Office premises for rental | Medium term lease | 100 |
| 6th Floor, Block 4<br>Youyi Garden<br>52 Kaixuan Road<br>Kuancheng District<br>Changchun<br>China | Residential premises for rental | Medium term lease | 100 |

# FIVE YEAR FINANCIAL SUMMARY

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

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2022 HK$'000** | 2021 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2018 HK$'000 |
| REVENUE | **957,578** | 1,073,838 | 936,545 | 1,058,424 | 1,058,857 |
| PROFIT/(LOSS) FOR THE YEAR | **34,751** | 43,484 | 53,897 | (238,790) | 87,511 |
| Attributable to: | | | | | |
| Owners of the parent | **34,751** | 43,484 | 53,897 | (238,790) | 87,336 |
| Non-controlling interests | **–** | – | – | – | 175 |
| | **34,751** | 43,484 | 53,897 | (238,790) | 87,511 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2022 HK$'000** | 2021 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2018 HK$'000 |
| TOTAL ASSETS | **1,483,734** | 1,566,812 | 1,515,608 | 1,509,142 | 1,811,099 |
| TOTAL LIABILITIES | **(433,666)** | (473,409) | (469,358) | (567,760) | (625,398) |
| | **1,050,068** | 1,093,403 | 1,046,250 | 941,382 | 1,185,701 |