Howkingtech International Holding Limited
濠暻科技國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock code: 2440

2022
ANNUAL REPORT

* *For identification purpose only*

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Chen Ping *(Chairman)*
Ms. Wang Zheshi
Mr. Feng Yijing
Mr. Wang Jun

Independent Non-executive Directors

Mr. Gu Jiong
Mr. Fong Wo, Felix
Mr. Yang Hai

AUDIT COMMITTEE

Mr. Gu Jiong *(Chairman)*
Mr. Fong Wo, Felix
Mr. Yang Hai

REMUNERATION COMMITTEE

Mr. Fong Wo, Felix *(Chairman)*
Mr. Feng Yijing
Mr. Yang Hai

NOMINATION COMMITTEE

Dr. Chen Ping *(Chairman)*
Mr. Gu Jiong
Mr. Fong Wo, Felix

AUTHORIZED REPRESENTATIVES

Dr. Chen Ping
Ms. Zhang Xiao

COMPANY SECRETARY

Ms. Zhang Xiao *ACG, HKACG*

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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Camana Bay
Grand Cayman KY1-9009
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Jiangning Economic and
Technological Development Zone
Nanjing
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman KY1-9009
Cayman Islands

Corporate Information

HONG KONG SHARE REGISTRAR

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Hong Kong

LEGAL ADVISOR

As to Hong Kong law

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Edinburgh Tower
The Landmark
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Hong Kong

COMPLIANCE ADVISOR

Ping An of China Capital (Hong Kong) Company Limited
Units 3601, 07 & 11–13, 36/F, The Center
99 Queen's Road Central
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
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979 King's Road
Quarry Bay
Hong Kong

PRINCIPAL BANKS

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Moling Street
Jiangning District
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Jiangsu Province
PRC

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Jiangning District
Nanjing City
Jiangsu Province
PRC

STOCK CODE

2440

COMPANY'S WEBSITE

www.howkingtech.com

Four Year Financial Summary

	Year ended December 31,			
	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**323,964**	189,552	127,425	80,885
Gross profit	**95,550**	78,799	51,381	36,398
Profit before tax	**33,234**	40,068	32,793	18,635
Profit for the year attributable to owners of the parent	**28,504**	34,380	28,553	17,351
Adjusted net profit (non-HKFRS measure)[(1)]	**51,040**	41,755	29,402	17,351

	As of December 31,			
	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Assets:				
Non-current assets	**13,034**	13,352	8,897	11,587
Current assets	**345,652**	339,345	155,938	108,378
Total assets	**358,686**	352,697	164,835	119,965
Equity and liabilities:				
Total equity	**256,084**	153,034	119,295	81,242
Non-current liabilities	**214**	1,783	34	668
Current liabilities	**102,388**	197,880	45,506	38,055
Total liabilities	**102,602**	199,663	45,540	38,723
Total equity and liabilities	**358,686**	352,697	164,835	119,965

Note:

(1) Listing expenses were not included in non-HKFRS financial measure.

Chairman's Statement

On behalf of the Board of Howkingtech International Holding Limited, I am pleased to announce the consolidated results of the Group for the year ended December 31, 2022.

The year of 2022 was a challenging and milestone year for Howkingtech. Amidst the resurgence of the COVID-19 pandemic, and under the influence of factors such as intensified competition in the industry and surging bulk commodity prices, the Group continued to implement the 5G strategy despite the adversity. Leveraging the strong product strengths and sound communication with customers, the Company achieved satisfactory results for its businesses during the Year. The Group's revenue for the Year was approximately RMB324.0 million, representing a significant increase of approximately 70.9% as compared to approximately RMB189.6 million in 2021; adjusted net profit of the Group was approximately RMB51.0 million, as compared to approximately RMB41.8 million in 2021. Moreover, the Company was successfully listed on the Stock Exchange on December 12, 2022, which the Company believes will lead the Group into a new phase of development.

As a PRC provider for data transmission and processing services for IoT applications and telecommunication equipment, the Group is heading into the new journey of business development with the growing IoT market in the PRC. In terms of the revenue by business segment, the Group achieved significant breakthroughs during the Year in the data transmission and processing services for IoT applications. The Group focused on assisting our customers to realize and optimize their digitalization. Catering to customers' specific needs, the Group is flexible in providing either integrated services or software services. The revenue from data transmission and processing services for IoT applications increased by approximately 93.1% from approximately RMB123.3 million in 2021 to approximately RMB238.1 million in 2022. With the implementation of 5G strategy, the revenue generated from 5G business has increased by approximately 64.4% from approximately RMB72.9 million in 2021 to approximately RMB119.8 million in 2022.

China's IoT market is developing rapidly. Since 2020, 5G-based IoT has become an emerging sector in China's IoT market, with huge growth potential. In addition to consolidating its operation results, the Group will continue to proactively engage in the development of new 5G technologies and the research on advanced technology and innovative products so as to consistently provide products and services with high-cost efficiency for the customers. In the coming year, the Group will strive for better operating performance and continue to enhance corporate value to reward society and the Shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the Shareholders for their support over the years, and I would like to thank all of our staff for their contribution. I would also like to express my sincere gratitude to the customers, partners, Shareholders and Directors for the trust and support they have given to the Group over the years.

Chen Ping
Chairman and Executive Director

Hong Kong, March 27, 2023

Management Discussion and Analysis

The Group is a PRC provider for (i) data transmission and processing services for IoT applications and (ii) telecommunication equipment, serving a broad range of industrial customers. The Group has been operating in the rapidly growing IoT market in the PRC since 2012, and commenced the provision of data transmission and processing services for IoT applications to customers in various industries in 2018. The Group set foot in the private 5G network market in the PRC in 2020 through upgrading its data transmission and processing services for IoT applications with the application of 5G technologies, and has since become one of the named providers in the explosively growing private 5G network market in the PRC. In 2022 the Company was successfully listed on the Stock Exchange and became one of the few IoT-focused listed companies on the Stock Exchange.

HIGHLIGHTS IN 2022

	Year Ended December 31,		
	2022	2021	2020
	RMB'000	RMB'000	RMB'000
Revenue	**323,964**	189,552	127,425
Cost of Sales	**(228,414)**	(110,753)	(76,044)
Gross Profit	**95,550**	78,799	51,381
Net Profit	**28,504**	34,380	28,553
Adjusted Net Profit (non-HKFRS measure)[1]	**51,040**	41,755	29,402

Note: (1) Listing expenses were not included in non-HKFRS measure.

2022 is a challenging year for China, and the resurgence of the COVID-19 pandemic significantly slowed down China's real GDP growth from approximately 8% in 2021 to approximately 3% in 2022, one of the lowest growth rates in the decades. Nevertheless, riding on the growing IoT market in the PRC and leveraging on its strong product competitiveness and solid customer relationships, the Group maintained its business development momentum in 2022, achieving impressive business and financial performance. Moreover, the Company was successfully listed on the Stock Exchange in December 2022, which the Company believes will lead the Group into a new phase of development. 2022 is indeed a milestone year for the Company and the Group.

The Group continued to record strong revenue growth in 2022 by successfully capturing the great potential in the PRC IoT market through its one-stop solution, diversified product portfolio and prompt service delivery. After achieving approximately 48.8% revenue growth in 2021, the Group continued its robust business momentum, with revenue increasing by approximately 70.9% from approximately RMB189.6 million in 2021 to approximately RMB324.0 million in 2022.

The Group realized a balanced revenue growth by maintaining strong growth in non-5G business while successfully tapping into the more promising private 5G network market. As one of the pioneers in the PRC private 5G network market, the Group continued strong growth in the 5G business in 2022, with revenue increasing by approximately 64.4% to approximately RMB119.8 million in 2022 from approximately RMB72.9 million in 2021. In the meantime, the Group's non-5G business revenue increased by approximately 75.0% from approximately RMB116.7 million in 2021 to approximately RMB204.2 million in 2022.

Management Discussion and Analysis

The Group also achieved a balanced development between the top-line growth and the bottom-line performance. As newly developed business sector, 5G business inevitably possessed lower margin as compared to the Group's existing business sectors. Nevertheless, the Group still managed to achieve good profit performance under a lower gross margin, with the adjusted net profit increasing approximately 22.2% from approximately RMB41.8 million in 2021 to approximately RMB51.0 million in 2022.

Last but not least, the recent successful listing has not only raised the Company's brand awareness and corporate governance standard, but more importantly has provided the much needed funds to accelerate the Group's overall business development in the future. To further drive its expansion and enhance its overall competitiveness, the Company has allocated most of the listing proceeds to various research and development activities as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

OUTLOOK FOR 2023

Looking ahead, with the COVID-19 pandemic gradually coming to an end, China has refocused its attention on economic development. Chinese government has launched a series of measures recently to create a more business-friendly environment so as to stimulate economic growth, which the Company believes will further enhance the overall growth momentum in the PRC IoT market. Given this opportunity, the Group will take the following measures to ensure a high-quality business development in 2023.

First of all, the Group will further upgrade and improve its data transmission services. The Group will upgrade its equipment and technologies to improve its private 5G network service and to develop industrial IoT so as to better position itself to capture the increasing opportunities of private 5G network and industrial IoT.

Secondly, the Group will further upgrade its Universal IoT Platform to optimize the utilization and management of data resources and application interface. The Group will refactor its centralized data platform, namely Universal IoT Platform, and extend its functions to cover industrial IoT applications so that Universal IoT Platform can become a real common digitalization foundation to facilitate the Group's different applications.

Thirdly, the Group will continue to strengthen its research and development capabilities. To keep abreast with rapidly progressing technologies, the Group will expand its talent pool more aggressively by recruiting more high calibre, and cultivate its own research and development team through enhanced professional training. Moreover, the Group will invest more in its research and development infrastructure to better support various research and development activities.

Fourthly, the Group will further strengthen its marketing capabilities and broaden its customer base. The Group will recruit more business development staff to improve its overall marketing capabilities. The Group will seek to reach more customers in the industrial IoT industry so as to diversify its customer base and grasp the increasing industrial IoT market opportunities.

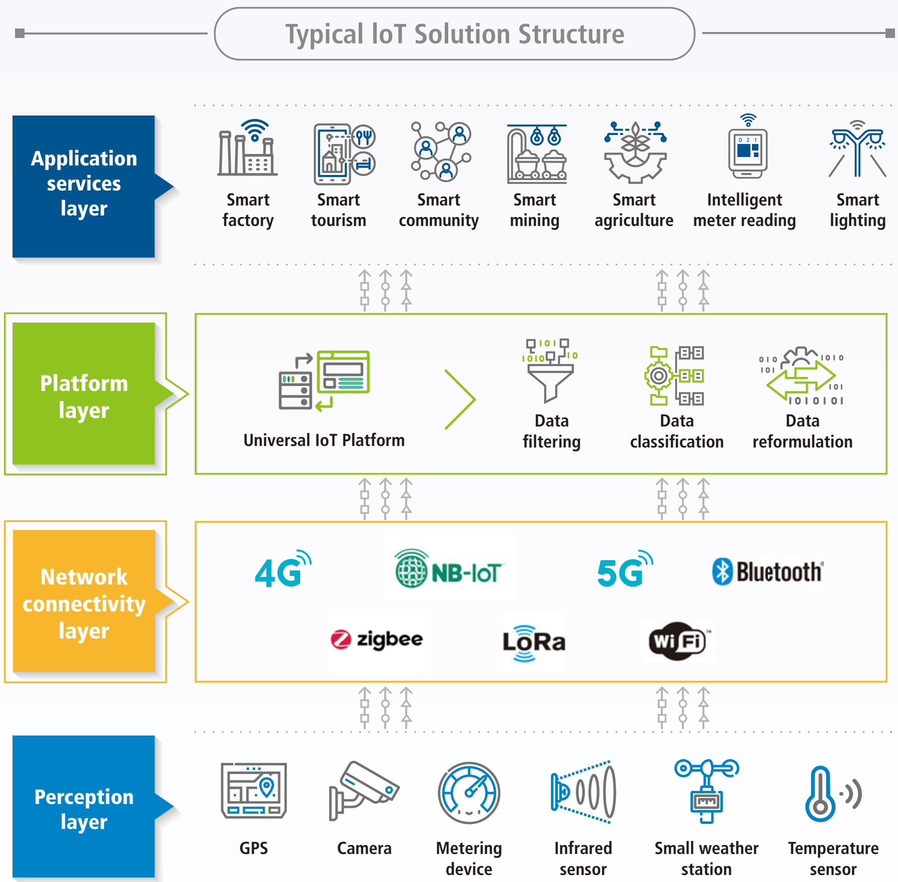
Lastly, the Company believes that strategic acquisition is another effective method that could help the Group enrich its offerings, enhance its technologies and its market position. Therefore, the Group would selectively pursue strategic acquisitions to accelerate its overall business development.

Management Discussion and Analysis

BUSINESS PERFORMANCE

The Industry and the Group's Strength

The IoT industry where the Group operates possesses great growth potential, driven by growing adoption of advanced technology, rapid development of industrial IoT, increasing demand for private 5G network as well as strong government support. According to Frost & Sullivan, the IoT market in the PRC experienced a rapid growth with a CAGR of approximately 26.2% from 2016 to 2021, and is expected to further grow at a CAGR of approximately 13.3% from 2021 to 2026, reaching approximately RMB5,466.0 billion in 2026, of which the 5G-based IoT market is expected to grow at a CAGR of approximately 62.2% from 2021 to 2026, reaching approximately RMB491.9 billion in 2026. More specifically, the private 5G network market in the PRC is expected to reach approximately RMB236.1 billion in 2026, with a CAGR of approximately 108.2% from 2021 to 2026.



However, the IoT market in the PRC is also competitive and fragmented with more than 30,000 participants competing with each other in each layer of the IoT market from perception layer, network connectivity layer, platform layer to application services layer. Nevertheless the Company believes that the Group, as an IoT solution provider focusing on network connectivity layer and platform layer, is well positioned to capture the growing demand for IoT solutions and telecommunication equipment in the PRC given its years of industry experience, in-depth market knowledge and insight as well as a proven track record in providing data transmission and processing services and telecommunication equipment. The Company also believes that the Group's one-stop solution, diversified product portfolio, short service delivery capabilities, strong innovation and research capabilities as well as experienced and visionary management will help the Group stand out from its competitors in the future.

Management Discussion and Analysis

Data Transmission and Processing Services

The Group offers data transmission and processing services for IoT applications to its customers in manufacturing, municipal services and other industries in the PRC to assist them to realize and optimize their digitalization. The Group classifies its data transmission and processing services as non-5G network services and private 5G network services depending on the network connection mode the Group adopts in the services. Non-5G network services help customers connect terminal devices with the Group's proprietary Universal IoT Platform via various telecommunication networks or gateways, such as 4G, LORA, Zigbee, NB-IoT or Bluetooth, and the Group provides tailored non-5G network services based on customers' demands and their application scenarios. The Group has started to provide data transmission and processing services with private 5G network since 2020, and has successfully improved the efficiency and cost-effectiveness of the Group's services by offering turnkey solutions with hardware and software integration for its customers.

	Year Ended December 31,	
	2022	2021
	RMB'000	RMB'000
Non-5G Network Services Revenue	**172,715**	63,986
Private 5G Network Services Revenue	**65,358**	59,312
Data Transmission and Processing Services for IoT Applications	**238,073**	123,298

Revenue from data transmission and processing services increased by approximately 93.1% from approximately RMB123.3 million in 2021 to approximately RMB238.1 million in 2022. Both non-5G network services and private 5G network services recorded strong growth in 2022, increasing by approximately 169.9% and 10.2% as compared to 2021, respectively.

Management Discussion and Analysis

Sales of Telecommunication Equipment

In addition to data transmission and processing services for IoT applications, the Group also researches, develops and sells telecommunication equipment in the PRC and exports substantially all of its antennas to the United States and Russia. The Group provides its customers with 5G telecommunication equipment, including 5G pRRU, various types of 5G antennas and 5G communication modules, which were designed to cater to preferences of different consumer groups. The Group also provides other telecommunication equipment, which primarily includes 4G telecommunication equipment and other IT devices, to its customers. In addition, the Group exports IoT antenna and vehicle-mounted antenna products to the United States and Russia, respectively.

	Year Ended December 31,	
	2022	2021
	RMB'000	RMB'000
Sales of 5G Telecommunication Equipment	**54,445**	13,562
Sales of Other Telecommunication Equipment	**7,657**	6,582
Sale of Antennas	**20,057**	39,825
Sales of Telecommunication Equipment	**82,159**	59,969

Revenue from sales of telecommunication equipment increased by approximately 37.0% from approximately RMB60.0 million in 2021 to approximately RMB82.2 million in 2022, mostly driven by the strong sales of 5G telecommunication equipment that grew by approximately 301.5% to approximately RMB54.4 million in 2022. Meanwhile, sales of antennas decreased significantly by approximately 49.6% from approximately RMB39.8 million in 2021 to approximately RMB20.1 million in 2022, mainly because the Group ceased the sales of vehicle mounted antennas to a Russia distributor in December 2022 to avoid uncertain and potential risks in relation to international sanctions and the global chip shortage affected the purchase orders of IoT antennas from the United States.

Customers and Contracts

The Group's main customers include (i) state-owned or private project owners, (ii) main contractors for data transmission and processing services for IoT applications, who sub-contract a pre-defined section of the project to the Group, and (iii) overseas end customer and distributor. The Group has strived to broaden and diversify its customer base. The number of its customers expanded to 30 in 2022 from 23 in 2021. Revenue generated from the Group's five largest customers amounted to approximately RMB166.1 million in 2022, accounting for approximately 51.3% of total revenue, while such ratio was approximately 65.1% in 2021. The high customer concentration is a common occurrence in the market where the Group operates since IoT solution projects are relatively large in size as compared with most of the service providers in the market. Therefore, service providers have to allocate a majority of their resources, capacity and manpower to such projects to ensure the delivery of projects. The Group believes that its customer concentration will gradually decrease over time with continuous business expansion in the future.

Benefiting from its in-depth industry knowledge, years of experience and considerate customer services, the Group has been awarded an increasing number of new contracts by its customers on an annual basis. Compared with 45 new contracts awarded in 2021, 72 new contracts were awarded in 2022, with an average contract value of approximately RMB4.6 million, which was approximately 24.7% higher than that of new contracts awarded in 2021. As of December 31, 2022, there were 10 projects in progress, with a remaining contract value of approximately RMB55.8 million, laying a solid foundation for the Group's business growth in the near future.

Management Discussion and Analysis

Research and Development

The Group believes that its competitiveness and success depend critically on its continuous commitment to research and development and its ability to improve the functionality of, and add new features to, its services and products. Thus, the Group devotes significant resources to research and development and develops core features of its services and products in-house. As of December 31, 2022, the Group's research and development staff consisted of 42 employees, representing approximately 56.0% of the total number of employees of the Group. Research and development expenses increased by approximately 15.5% from approximately RMB9.8 million in 2021 to approximately RMB11.3 million in 2022. Moreover, the Company decided to allocate more than 80% of the net proceeds from the Global Offering to various research and development activities, including hiring more research and development staff to improve its private 5G network services, to research and develop industrial WLAN and to upgrade its Universal IoT Platform.

The Group's continuous research and development efforts have enhanced the competitiveness in its services and products. The Group self-developed its centralized data platform, namely Universal IoT Platform, for its data processing services. Universal IoT Platform adopted a series of in-house developed technologies in areas of terminal data protocol unification, device shadow, data flow, data aggregation and integration, and data purification and processing, which have greatly differentiated Universal IoT Platform from traditional data platforms and turned Universal IoT Platform into one of the Group's core business capabilities and competitive edges. In addition, as of December 31, 2022, the Group had successfully registered 91 utility model patents, 17 patents for invention, and two patents for industrial design and 80 copyrights in the PRC, indicating the Group's strong innovation and research capabilities.

Employees and Remuneration Policy

As of December 31, 2022, the Group had a total number of 75 employees (as of December 31, 2021: 76). For the year ended December 31, 2022, the Group recognized staff costs of approximately RMB20.2 million, representing an increase of approximately 38.3% as compared to the same period in 2021. The following table sets forth a breakdown of the Group's employees by function as of December 31, 2022:

Function	**Number of Employees**	**Percentage of the Total Number of Employees (%)**
Research and Development	42	56.0
Business Development	8	10.7
Administration	16	21.3
Production	9	12.0
Total	75	100.0

The Group's success depends on its ability to attract, retain and motivate qualified personnel, and the Group believes that the high-quality talent pool is one of its core strengths. The Group recruits employees mainly through campus recruitment, online recruitment, internal referral and hunting firms or agents, to satisfy its demands for different types of talents.

The Group provides trainings to its employees. In addition to the trainings provided to employees, they can also improve their skills through the Group's development of services and mutual learning among colleagues.

Management Discussion and Analysis

The Group offers competitive compensation for its employees. In addition, the Group regularly evaluates the performance of employees and reward those who perform well with higher compensation or promotion.

The Group enters into standard contracts and agreements regarding confidentiality, intellectual property, employment, commercial ethics and non-competition with executive officers and full-time employees. These contracts typically include a non-competition provision effective during and up to two years after their employment with the Group and a confidentiality provision effective during and after their employment with the Group.

In addition, to provide incentive or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of the Group, the Company has adopted the Share Option Scheme.

Business Activities with Entities Subject to International Sanctions

The Group has exported vehicle-mounted antennas to Russia in the recent years via a Russian distributor that primarily engages in the sales of telecommunication equipment. The distributor itself is not a sanctioned entity, however it did resell the Group's products to one end-customer who was owned by a specially designated national ("SDN") and subject to the same sanctions applicable to SDNs. Although the Group's activities did not constitute a violation of sanctions, the Group had ceased its business activities in Russia after completing all existing contractual obligations with the Russian distributor by the end of 2022 in light of the uncertainties and potential risks in relation to international sanctions.

In addition, the Group generated certain revenue from a sanctioned PRC customer in 2022. This customer was designated by the U.S. Treasury Department on the Non-SDN Chinese Military-Industrial Complex Companies List on June 3, 2021 with relevant sanctions effective on August 2, 2021. The Group had completed all of contractual obligations with this customer as of the end of 2022 and will not have any new dealings with it in the future.

Impact of COVID-19 Pandemic

In December 2019, a respiratory illness known as COVID-19 caused by a novel strain of coronavirus emerged and has spread globally since then, which has adversely affected the global economy. Nevertheless, with an effective strategy in place to mitigate the impact of the COVID-19 pandemic, such as leading the R&D team to make technological advancements, exploring new and potential customers, and maintaining multiple supplies for raw materials and components, the Group has achieved continuous business growth during the pandemic period and the pandemic has not brought material adverse impact on the Group's operations and financial performance. For the year ended December 31, 2022, the Group did not (i) experience any material delay or failure by suppliers to deliver the Group's orders, or (ii) fail to provide services or deliver products to the Group's customers during such period. As a result, the Group's financial performance had not been materially and adversely affected by the COVID-19 pandemic during the year of 2022.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

	Year Ended December 31,	
	2022	2021
	RMB'000	RMB'000
Revenue	**323,964**	189,552
Data Transmission and Processing Services	**238,073**	123,298
Sales of Equipment	**82,159**	59,969
Others	**3,732**	6,285
or:		
5G Business	**119,803**	72,874
Non-5G Business	**204,161**	116,678
or:		
PRC	**305,251**	149,725
The United States	**10,539**	15,515
Russia	**8,174**	24,312

Driven by its overall business expansion across all the major sectors, the Group's revenue increased by approximately 70.9% from approximately RMB189.6 million in 2021 to approximately RMB324.0 million in 2022. More specifically, revenue from data transmission and processing services increased by approximately 93.1% from approximately RMB123.3 million in 2021 to approximately RMB238.1 million in 2022, and revenue from sales of equipment increased by approximately 37.0% from approximately RMB60.0 million in 2021 to approximately RMB82.2 million in 2022; revenue from 5G business increased by approximately 64.4% from approximately RMB72.9 million in 2021 to approximately RMB119.8 million in 2022, and revenue from non-5G business increased by approximately 75.0% from approximately RMB116.7 million in 2021 to approximately RMB204.2 million in 2022.

The Group generates most of its revenue from the PRC market. Revenue generated from the United States and Russia was primarily attributable to the Group's export of IoT antennas and vehicle-mounted antennas to the United States and Russia, respectively. Revenue from the United States market decreased by approximately 32.1% from approximately RMB15.5 million in 2021 to RMB10.5 million in 2022, mainly because the global chip shortage affected the business of the Group's U.S. customer, who in turn reduced purchase orders from the Group. Revenue from Russia market decreased significantly by approximately 66.4% from approximately RMB24.3 million in 2021 to RMB8.2 million in 2022, mainly because the Group ceased the sales of vehicle mounted antennas to a Russia distributor in December 2022 to avoid uncertain and potential risks in relation to international sanctions.

The Group has historically generated a greater proportion of its revenue in the second half since most orders for data transmission and processing services were confirmed and delivered in the second half, leading to a larger portion of revenue recognized in the same period. In 2022, approximately 74.0% of the Group's revenue was generated in the second half, while such ratio was approximately 62.0% in 2021.

Management Discussion and Analysis

Costs and Expenses

	Year Ended December 31,	
	2022	2021
	RMB'000	RMB'000
Cost of Sales	**228,414**	110,753
OEM Expenses	**49,789**	31,921
Material Costs	**173,783**	74,674
Administrative Expenses	**47,982**	28,258
R&D Expenses	**11,308**	9,791
Staff Costs	**5,876**	5,057
Listing Expenses	**22,536**	7,375
Selling and Distribution Expenses	**3,753**	2,140
Staff Costs	**2,277**	1,322
Impairment Losses on Financial Assets	**12,180**	11,478
Trade and Notes Receivables	**12,413**	11,187

Cost of sales includes (i) material costs, (ii) OEM expenses and (iii) labor costs. The Group's cost of sales increased by approximately 106.2% from approximately RMB110.8 million in 2021 to approximately RMB228.4 million in 2022. The increase was primarily due to a rapid growth in material costs as a result of a changing revenue structure of the Group. Material costs increased by approximately 132.7% in 2022 as compared to 2021, and its share of cost of sales rose to approximately 76.1% in 2022 from approximately 67.4% in 2021.

Administrative expenses consist of (i) R&D expenses, (ii) staff costs, (iii) listing expenses, (iv) consulting expenses, (v) depreciation and amortization, (vi) office expenses, and (vii) tax surcharges. The Group's administrative expenses increased by approximately 69.8% from approximately RMB28.3 million in 2021 to approximately RMB48.0 million in 2022, mainly because (i) R&D expenses increased by approximately 15.5% to approximately RMB11.3 million in 2022 as a result of enhanced R&D effort by the Group; and (ii) the successful listing in December 2022 led to the listing expenses of approximately RMB22.5 million in 2022, representing an increase of approximately 205.6% as compared to 2021.

Selling and distribution expenses consist of (i) staff costs, (ii) travelling expenses, (iii) depreciation, and (iv) entertainment expenses. The Group's selling and marketing expenses increased by approximately 75.4% from approximately RMB2.1 million in 2021 to approximately RMB3.8 million in 2022, mainly due to the rising staff costs as a result of the Group's business expansion, which increased by approximately 72.2% to approximately RMB2.3 million in 2022.

The Group recognizes an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss and use a provision matrix to calculate ECLs for trade receivables, notes receivable and contract assets based on historical expected credit loss rates of industry peers and aging for groupings of various customers with similar loss pattern. The Group's impairment losses on financial assets remained stable at approximately RMB12.2 million in 2022 as compared to approximately RMB11.5 million in 2021, of which the impairment on trade and notes receivables increased from approximately RMB11.2 million in 2021 to approximately RMB12.4 million in 2022.

Management Discussion and Analysis

Gross Profit, Profit Before Tax and Net Profit

	Year Ended December 31,	
	2022	2021
	RMB'000	RMB'000
Gross Profit	**95,550**	78,799
Gross Margin	**29.5%**	41.6%
5G Business	**24.1%**	31.1%
Non-5G Business	**32.7%**	48.1%
Profit Before Tax	**33,234**	40,068
Net Profit	**28,504**	34,380

The Group's gross profit increased by approximately 21.3% from approximately RMB78.8 million in 2021 to approximately RMB95.6 million in 2022. A lower growth rate in gross profit than that in revenue led to a decreasing gross margin from approximately 41.6% in 2021 to approximately 29.5% in 2022, which mainly resulted from lower gross margins for both 5G business and non-5G business. The gross margin of 5G business decreased from approximately 31.1% in 2021 to approximately 24.1% in 2022 while that of non-5G business decreased from approximately 48.1% in 2021 to approximately 32.7% in 2022.

Given a lower growth rate in gross profit and a higher growth rate in administrative expenses, the Group's profit before tax decreased by approximately 17.1% from approximately RMB40.1 million in 2021 to approximately RMB33.2 million in 2022. The Group's net profit decreased by approximately 17.1% from approximately RMB34.4 million in 2021 to approximately RMB28.5 million in 2022. Without taking into account the listing expenses for the years ended December 31, 2021 and 2022, the Group's adjusted net profit in 2022 would increase by approximately 22.2% as compared to 2021.

Non-HKFRS Measure

To supplement the consolidated financial statements which are presented in accordance with HKFRS, the Group also presents the adjusted net profit as a non-HKFRS measure, which is not required by, or presented in accordance with, HKFRS. The Group believes that this non-HKFRS measure facilitates comparison of operating performance from period to period by eliminating impacts of listing expenses of the Global Offering. In addition, the Group believes that this non-HKFRS measure provides useful information to investors and others in understanding and evaluating the results of operations in the same manner as the Group's management and in comparing financial results across the relevant periods. The use of this non-HKFRS measure has limitations as an analytical tool. As such, it should not be considered in isolation from, or as substitute for analysis of, the consolidated statements of profit or loss and other comprehensive income or financial condition as reported under HKFRS. In addition, the non-HKFRS financial measures may be defined differently from similar terms used by other companies and therefore, may not be comparable to similar measures presented by other companies.

Management Discussion and Analysis

The Group defines its adjusted net profit (non-HKFRS measure) as the net profit adding back listing expenses. The table below sets out the adjusted net profit (non-HKFRS measure) as of the dates indicated:

	Year Ended December 31,	
	2022	2021
	RMB'000	RMB'000
Profit for the Year	**28,504**	34,380
Adding: Listing Expenses	**22,536**	7,375
Adjusted Net Profit for the Year	**51,040**	41,755

Cash and Cash Equivalents and Time Deposits

Cash and cash equivalents and time deposits increased from approximately RMB86.3 million as of December 31, 2021 to approximately RMB120.7 million as of December 31, 2022, mainly due to the time deposits of approximately RMB73.4 million placed in December 2022 using the net proceeds from the Global Offering.

Trade and Notes Receivables

The following table sets forth trade receivables and notes receivable measured at amortized cost and impairment as of the dates indicated:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Trade Receivables	**238,024**	163,118
Notes Receivable Measured at Amortized Cost	**10,143**	–
Impairment	**(34,157)**	(22,367)
	214,010	140,751

Both total trade receivables and net trade receivables experienced steady increase as a result of overall business development in 2022, with total trade receivables increasing by approximately 45.9% from approximately RMB163.1 million in 2021 to approximately RMB238.0 million in 2022 and net trade and notes receivables by approximately 52.0% from approximately RMB140.8 million in 2021 to approximately RMB214.0 million in 2022. Although the provision for impairment amount still grew by approximately 52.7% in 2022, the percentage of provision for impairment on total trade and notes receivables amount maintained stable at approximately 13.8% as of December 31, 2022 as compared to approximately 13.7% as of December 31, 2021, mainly because both the absolute amount of trade and notes receivables aged over one year and its proportion in total trade and notes receivables as of December 31, 2022 declined as compared to those as of December 31, 2021.

Management Discussion and Analysis

The following table sets forth the aging analysis of net trade and notes receivables, based on the invoice date and net of loss allowance as of the dates indicated:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Within 1 Year	**169,291**	68,857
1 to 2 Years	**18,309**	47,387
2 to 3 Years	**23,636**	19,859
3 to 4 Years	**2,235**	4,648
4 to 5 Years	**539**	–
Total	**214,010**	140,751

Among all net trade and notes receivables aged over one year as of December 31, 2022, approximately 67.7% was due from four state-owned enterprises or affiliates. According to Frost & Sullivan, state-owned entities or their affiliates usually settle payments through time-consuming and prolonged internal administrative procedures, but their risks of failing to settle payments are low. In view of the background of such customers and the Group's continuous efforts to collect such receivables pursuant to its internal policy, the Group considers that the default risk of those trade and notes receivables is low.

Among the outstanding balances as of December 31, 2022, most of the corresponding customers had started to repay or at least indicated willingness to settle as soon as possible. Based on the ongoing communication with such customers and the historical progress in the subsequent settlement, the Group considers that except for the impairment of trade and notes receivables, the outstanding balances of trade and notes receivables would be settled eventually. As such, the Group is of the view that there is no material recoverability issue for its trade and notes receivables.

Borrowing

As of December 31, 2022, the Group had interest-bearing bank borrowings of approximately RMB10.4 million (December 31, 2021: RMB3 million), which were all denominated in RMB and with fixed interest rate. The Group's total authorized credit facilities remained at RMB10.0 million, among which RMB6.4 million had not been utilized as of the same date.

Gearing Ratio

The Group's gearing ratio, calculated by total debt (including interest-bearing bank borrowings and lease liabilities) divided by total equity, maintained at approximately 4.7% as of December 31, 2022, as compared to approximately 4.1% as of December 31, 2021, mainly due to an increase in total debt from approximately RMB6.2 million as of December 31, 2021 to approximately RMB12.2 million as of December 31, 2022.

Cash Flow and Capital Expenditure

The Group generated net cash flow from operating activities of approximately RMB18.0 thousand in 2022, as compared to net cash flow from operating activities of approximately RMB16.9 million in 2021. The low net cash flow in 2022 is mainly due to an increase in trade and notes receivables of approximately RMB85.1 million, which was partially offset by (i) an increase in trade payables of approximately RMB28.5 million, and (ii) an increase in other payables and accruals of approximately RMB13.2 million.

Management Discussion and Analysis

Net cash used in investing activities amounted to approximately RMB72.8 million in 2022, primarily due to the purchase of time deposits of approximately RMB73.3 million.

Net cash generated from financing activities amounted to approximately RMB32.9 million in 2022, mostly due to (i) the proceeds from issue of Shares of approximately RMB184.9 million upon the fulfilment of capital injection obligations by the Shareholders to the Company and (ii) new bank loan of approximately RMB15.4 million, which were partially offset by (i) capital reduction of approximately RMB96.4 million for the Reorganization purpose, (ii) repayment of loans from a director of approximately RMB40.9 million for the Reorganization purpose, (iii) share issue expenses of approximately RMB11.3 million, (iv) payments for an equity interest of the Reorganization from a director and a shareholder of approximately RMB9.2 million, and (v) repayment of bank loans of RMB8 million.

Capital expenditure primarily consisted of purchases of property, plant and equipment and renovation expenses, which decreased by approximately 71.6% from approximately RMB1.8 million in 2021 to approximately RMB0.5 million in 2022, primarily attributable to the decreasing purchase of office equipment, electronic equipment for laboratory use and machines.

Charges on Assets

As of December 31, 2022, the Group did not have any assets or rights pledged (December 31, 2021: Nil).

Contingent Liabilities

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

Foreign Currency Risk

The Group has transactional currency exposures and are subject to foreign currency risk arising from fluctuations in exchange rates between RMB and foreign currencies. As of December 31, 2022, the Group had transactional currency exposures. Such exposures arose from changes in the fair value of monetary assets and liabilities and exchange differences resulting from translation of the financial statements of certain overseas subsidiaries.

As of December 31, 2022, the Group did not hedge or consider necessary to hedge any of these risks. The Group will constantly review the economic situation and the foreign exchange risk profile and consider appropriate hedging measures in the future, when necessary.

Significant Investments, Acquisitions and Disposals

The Group did not have any significant acquisitions or disposals of subsidiaries, associates or joint ventures during the period from the Listing Date and up to December 31, 2022.

As of December 31, 2022, none of each individual investment held by the Group constituted 5% or above of the total assets of the Group and there was no future plans for material investments or capital assets.

Biographies of Directors and Senior Management

DIRECTORS

Executive Directors

Dr. Chen Ping (陳平), aged 59, is the Group's co-founder and executive Director. Dr. Chen is the spouse of Ms. Wang Zheshi, who is an executive Director and the chief administrative and human resources officer. Dr. Chen is also the son-in-law of Ms. Jin Yan, one of the Controlling Shareholders. Dr. Chen is also the chairman of the Board and the chief executive officer of the Company responsible for the overall strategic planning and overseeing general management and daily operation of the Group. Dr. Chen also holds directorships in each of the subsidiaries of the Group. He is also the chairman of the Nomination Committee.

Dr. Chen has over 25 years of experience in the telecommunications industry and has acquired the relevant knowledge and expertise relating to engineering from working with various multinational enterprises prior to founding the Group. From 1988 to 1991, Dr. Chen was a radio frequency (RF) design engineer at Scientific Atlanta, Inc., a telecommunications manufacturer in the United States, after which he pursued further studies at the University of Nevada and completed his master's degree in 1993. From 1993 to 1996, Dr. Chen worked as a senior design engineer at Fujitsu America, Inc., a wholly-owned subsidiary of Fujitsu Limited, a Japanese multinational information and communications technology equipment and services corporation whose shares are listed on the Tokyo Stock Exchange (stock code: 6702). From 1996 to 1999, Dr. Chen was a senior RF design engineer at Qualcomm, Inc., a multinational semiconductor and wireless technology manufacturer headquartered in the United States whose shares are listed on the NASDAQ (stock code: QCOM). From 1999 to 2002, Dr. Chen served as a senior radio-frequency integrated circuit (RFIC) design manager at RF Micro Devices, Inc. (currently known as Qorvo, Inc., listed on the NASDAQ (stock code: QRVO)), a company principally engaged in radio frequency technology in the United States, where he was responsible for designing radio frequency for applications in wireless infrastructure. From 2002 to 2004, Dr. Chen served as the managing director in the Asia-Pacific region for Signal Technology Corporation, a microwave and RF components manufacturer, where he gained experience in the defense electronics field. From 2004 to 2009, Dr. Chen was the general manager of the Asia-Pacific region for SkyCross, Inc., a global wireless antenna solutions company, where he was responsible for the overall management of the company in the Asia-Pacific region. From 2009 to 2012, Dr. Chen and Ms. Wang Zheshi were in the course of preparing for the establishment of the Group. Dr. Chen then co-founded the Group with Ms. Wang in September 2012 through establishing Shenzhen Wulian.

Dr. Chen obtained a master's degree in electrical engineering from the University of Nevada in the United States in August 1993. Dr. Chen subsequently obtained a doctorate degree in electrical engineering from North Carolina Agricultural and Technical State University in the United States in May 2008.

Biographies of Directors and Senior Management

Ms. Wang Zheshi (王者師), aged 39, is the Group's co-founder and executive Director. Ms. Wang is the spouse of Dr. Chen Ping, who is an executive Director, chairman and chief executive officer of the Company. Ms. Wang is also the daughter of Ms. Jin Yan, one of the controlling shareholders of the Company. Ms. Wang is also the Group's chief administrative and human resources officer principally responsible for overseeing the administrative and human resources affairs of the Group.

Ms. Wang has around 11 years of experience in the administrative and human resources field. Prior to founding the Group, from August 2006 to March 2009, Ms. Wang worked in SkyCross, Inc. Shenzhen office with her position served as the director of Administration and Human Resource, where she was responsible for its administrative personnel management. From 2009 to 2012, Ms. Wang and Dr. Chen Ping were in the course of preparing for the establishment of our Group. Ms. Wang then co-founded the Group with Dr. Chen in September 2012 through establishing Shenzhen Wulian.

Ms. Wang obtained a bachelor's degree in art and design from Jilin University of Arts (吉林藝術學院) in the PRC in July 2006.

Mr. Feng Yijing (馮義晶), aged 41, is an executive Director. Mr. Feng is also the chief financial officer of the Group principally responsible for overseeing the overall management of accounting and financial matters of the Group. He is also a member of the Remuneration Committee.

Mr. Feng has around 17 years of experience in the accounting and auditing field. Prior to joining our Group in 2019, from August 2004 to October 2016, Mr. Feng worked at Ernst & Young Hua Ming LLP, Nanjing Branch with his last position as senior audit manager, where he was responsible for audit and other assurance and advisory services. From October 2016 to January 2019, Mr. Feng was the chief financial officer of Hangzhou Wansecheng E-Commerce Co., Ltd. (萬色城電子商務集團有限公司), where he was responsible for the overall financial matters of the group. From June 2020 to July 2022, Mr. Feng served as an independent non-executive director of Suchuang Gas Corporation limited (蘇創燃氣股份有限公司), a piped natural gas operator whose shares were formerly listed on the Stock Exchange until August 3, 2022 (stock code: 1430).

Mr. Feng obtained a bachelor's degree in auditing from the Nanjing Audit University (南京審計大學) (formerly known as the Nanjing Institute of Audit (南京審計學院)) in the PRC in June 2004. Mr. Feng became a non-practising member of the Chinese Institute of Certified Public Accountants in January 2017. He was also admitted as a fellow member of the Association of Chartered Certified Accountants in January 2013. Mr. Feng is also a Certified Internal Auditor, as awarded by the Institute of Internal Auditors in November 2010.

Biographies of Directors and Senior Management

Mr. Wang Jun (王軍), aged 48, is an executive Director. Mr. Wang is also the chief technology officer of the Group principally responsible for overseeing the management of the Group's technological resources.

Mr. Wang has around 21 years of experience in the software development field. Prior to joining the Group in November 2021, from December 2000 to July 2003, Mr. Wang worked at Huawei Technologies Co., Ltd. Nanjing Research & Development Center (華為技術有限公司南京研究所). From August 2003 to February 2008, Mr. Wang worked at Nanjing Lucent Technologies Telecommunications Co., Ltd. (南京朗訊科技通信有限公司) with his last position as a technician. From March 2008 to April 2009, Mr. Wang joined Microsoft (China) Co., Ltd. Shanghai Minhang Branch with his last position as software design engineer II. From May 2009 to October 2018, Mr. Wang was a software developer at Ericsson Canada, Inc. From October 2018 to April 2021, Mr. Wang worked at Beijing DinoPlusAI Inc. (北京龍加智科技有限公司) as a software director, where he was engaged in artificial intelligence related business.

Mr. Wang obtained a bachelor's degree in industrial automation and master's degree in control theory and control engineering from the Southeast University (東南大學) in the PRC in June 1997 and March 2000, respectively.

Independent Non-executive Directors

Mr. Gu Jiong (顧炯), aged 50, was appointed as an independent non-executive Director on November 11, 2022. Mr. Gu is responsible for supervising the management of the Group and providing independent judgment to the Board. He is also the chairman of the Audit Committee and a member of the Nomination Committee.

From July 1995 to April 2004, Mr. Gu worked at Ernst & Young Hua Ming LLP, Shanghai Branch and was the senior manager of audit department when he left the firm. From April 2004 to December 2009, Mr. Gu worked at UTStarcom Telecom Co., Ltd. and its holding company UTStarcom Holdings Corp. (formerly known as UTStarcom. Inc.), a global telecom infrastructure provider specialized in the provision of packet optical transport and broadband access products to network operators whose shares are listed on the NASDAQ (ticker symbol: UTSI), where he last served as the finance controller (財務總監) and was responsible for accounting and financial matters. From January 2010 to August 2013, Mr. Gu served as the chief financial officer in BesTV New Media Co., Ltd. (currently known as Oriental Pearly Media Co., Ltd (東方明珠新媒體股份有限公司)), whose shares are listed on Shanghai Stock Exchange (stock code: 600637) and principally engaged in the provision of technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through a media source platforms where he was responsible for the financial matters of this company. From January 2016 to October 2016 and from October 2016 to January 2019, Mr. Gu was a non-executive director and an alternative director to Hui To Thomas of Shaw Brothers Holdings Limited (formerly known as Meike International Holdings Limited), a company listed on the Stock Exchange (stock code: 953), respectively. From March 2019 to November 2020, Mr. Gu was an independent non-executive director of Tu Yi Holding Company Limited, a company listed on the Stock Exchange (stock code: 1701). From June 2015 to November 2020, Mr. Gu was an independent non-executive director of Chen Xing Development Holdings Limited, a company listed on the stock exchange (stock code: 2286). From June 2015 to June 2021, Mr. Gu was an independent non-executive director of Xinming China Holdings Limited, a company listed on the Stock Exchange (stock code: 2699). From September 2013 to August 2016, Mr. Gu was the chief financial officer of CMC (Shanghai) Investment Management LLP (華人文化(上海)投資管理中心(有限合夥)), where he was responsible for the overall financial and capital operations of the company. From September 2018 to January 2023, Mr. Gu was an independent non-executive director of DaFa Properties Group Limited (大發地產集團有限公司) (stock code: 6111), a company listed on the Stock Exchange. Since September 2016, Mr. Gu has been the director, vice president and chief financial officer of CMC Inc. (華人文化有限責任公司) ("**CMC**") (formerly known as CMC Holdings Limited), an investment platform focused on the media and entertainment investments, where he is responsible for overseeing the financial operations and location-based entertainment business of CMC.

Biographies of Directors and Senior Management

Mr. Gu is currently the independent non-executive director of Amlogic (Shanghai) Co., Ltd (晶晨半導體（上海）股份有限公司), a company involved in the bulk purchase distribution of electronic parts and electronic communications equipment whose shares are listed on the Shanghai Stock Exchange (stock code: 688099), and of Vesync Co., Ltd (stock code: 2148) and Mulsanne Group Holding Limited (stock code: 1817), whose shares are listed on the Stock Exchange.

Mr. Gu obtained a bachelor's degree in financial management from Fudan University (復旦大學) in the PRC in July 1995. He is currently a non-practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

Mr. Fong Wo, Felix (方和), BBS, JP, aged 72, was appointed as an independent non-executive Director on November 11, 2022. Mr. Fong is responsible for supervising the management of the Group and providing independent judgment to the Board. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee.

Mr. Fong has practiced law for more than 40 years. Mr. Fong was admitted as a barrister and solicitor in Ontario, Canada in 1980, a solicitor in England and Wales in 1986, and in Hong Kong in 1987. He is a member of the Law Societies of Hong Kong, Upper Canada and England and Wales. Since 1988, Mr. Fong has been with King & Wood Mallesons (formerly known as Robert Lee & Fong, Felix Fong & Hon, Fong & Ng, Arculli Fong & Ng and King & Wood) specializing in foreign investments in the PRC.

From May 2000 to December 2008, Mr. Fong served as a non-executive director of Cinda International Holdings Limited (formerly known as Hantec Investment Holdings Limited), a financial institution principally engaged in corporate finance advisory, securities broking and asset management whose shares are listed on the Stock Exchange (stock code: 111). From May 2010 to May 2016, Mr. Fong served as an independent non-executive director of China Oilfield Services Limited (中海油田服務股份有限公司), a company dually listed on the Stock Exchange (stock code: 2883) and Shanghai Stock Exchange (stock code: 601808) which is principally engaged in offshore oil and gas exploration, development and production. From April 2011 to July 2018, he served as an independent non-executive director of China Investment Development Limited (中國投資開發有限公司) (formerly known as Temujin International Investments Limited), a company principally engaged in investment in listed and unlisted securities whose shares are listed on the Stock Exchange (stock code: 204). From October 2010 to March 2020, he served as an independent non-executive director of Evergreen International Holdings Limited (長興國際（集團）控股有限公司), a company principally engaged in the manufacturing and sales of menswear whose shares are listed on the Stock Exchange (stock code: 238). From June 2012 to May 2020, he served as an independent non-executive director of Sheen Tai Holdings Group Company Limited (順泰控股集團有限公司), a company principally engaged in the manufacturing and sales of cigarette packaging materials whose shares are listed on the Stock Exchange (stock code: 1335). From May 2017 to June 2020, he served as an independent non-executive director of Wuxi Biologics (Cayman) Inc. (藥明生物技術有限公司), a company principally engaged in the provision of biologics services whose shares are listed on the Stock Exchange (stock code: 2269). From June 2015 to October 2021, he served as an independent non-executive director of Xinming China Holdings Limited (新明中國控股有限公司) (stock code: 2699), a company principally engaged in property development whose shares are listed on the Stock Exchange.

Mr. Fong is currently an independent non-executive director of Bank of Shanghai (Hong Kong) Limited (上海銀行（香港）有限公司), a company incorporated in Hong Kong with limited liability, and an independent non-executive director of the following companies listed on the Stock Exchange: Vesync Co., Ltd (stock code: 2148), Television Broadcasts Limited (電視廣播有限公司) (stock code: 511), Guangdong Land Holdings Limited (粵海置地控股有限公司) (formerly known as Kingway Brewery Holdings Limited) (stock code: 124) and Greenland Hong Kong Holdings Limited (綠地香港控股有限公司) (formerly known as SPG Land (Holdings) Limited) (stock code: 337).

Biographies of Directors and Senior Management

Mr. Fong obtained a bachelor's degree in engineering from McMaster University in Canada in June 1974 and a Juris Doctor degree from Osgoode Hall Law School of York University in Canada in June 1978. Mr. Fong is appointed by the Ministry of Justice of the PRC (中華人民共和國司法部) as one of the China-appointed Attesting Officers in Hong Kong.

Mr. Yang Hai (楊海), aged 47, was appointed as an independent non-executive Director on November 11, 2022. Mr. Yang is responsible for supervising the management of the Group and providing independent judgment to the Board. He is also a member of each of the Audit Committee and the Remuneration Committee.

Mr. Yang has approximately 16 years of experience in the communication technology industry. Since December 2011, Mr. Yang has been serving as the vice-president of Etekcity US, a subsidiary of Vesync Co., Ltd ("**Vesync**"), a company listed on the Stock Exchange (stock code: 2148). Mr. Yang currently serves as an executive director for Vesync. From September 2006 to June 2011, Mr. Yang worked at Ericsson (China) Communications Co., Ltd as a software engineer responsible for gateway server development. From June 2003 to September 2006, Mr. Yang worked as a software engineer at Asiainfo Technologies (China), Inc, Shanghai Branch (亞信科技(中國)有限公司上海分公司), where he was principally responsible for billing system development.

Mr. Yang obtained a bachelor's degree in thermal energy and power engineering from Southeast University (東南大學) in the PRC in June 1996. He further obtained a master's degree in thermal engineering from Shanghai Jiaotong University (上海交通大學) in the PRC in March 1999.

SENIOR MANAGEMENT

Mr. Jia Kexin (賈可欣), aged 49, is the vice president of sales of Nanjing Howking Technology Co., Ltd. principally responsible for managing the sales department and formulating marketing plans and sales strategies.

Mr. Jia has approximately 20 years of experience in the marketing and management field. Prior to joining the Group in August 2021, from February 2003 to August 2021, Mr. Jia took on several positions at Comba Telecom Technology (Guangzhou) Ltd. (京信通信技術(廣州)有限公司) ("**Comba**"), with his last position as its group marketing director. Comba is a subsidiary of Comba Telecom Systems Holdings Limited (京信通信系統控股有限公司), a global solutions and services provider of wireless and information communications systems, whose shares are listed on the Main Board of the Stock Exchange (stock code: 2342).

Mr. Jia obtained a bachelor's degree in plant protection from the Nanjing Agricultural University (南京農業大學) in the PRC in July 1997. Mr. Jia subsequently obtained a master's degree in environmental science from the Graduate School of Chinese Academy of Sciences (中國科學院研究生院) in the PRC in December 2002.

Biographies of Directors and Senior Management

Mr. Qin Yufeng (秦玉峰), aged 41, is the research and development director of Nanjing Howking Technology Co., Ltd. principally responsible for the daily operation and management of the research and development department.

Mr. Qin has approximately 17 years of experience in the electronic information engineering field. Prior to joining the Group in April 2020, from July 2004 to March 2008, Mr. Qin was a technician at Sun-create Electronics Co., Ltd. (安徽四創電子股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600990). From April 2008 to April 2020, Mr. Qin was the product planning director of ZTE Corporation (中興通訊股份有限公司), a company listed on both the Main Board of the Hong Kong Stock Exchange (stock code: 0763) and the Shenzhen Stock Exchange (stock code: 000063).

Mr. Qin obtained a bachelor's degree in electronic information engineering from Anhui University (安徽大學) in July 2004.

Ms. Li Qiong (李瓊), aged 34, is the production manager of Shenzhen M2Micro Electronics Co., Ltd., principally responsible for overseeing its supply chain system and inventory management.

Ms. Li has approximately 12 years of experience in the product production and procurement field. Prior to joining the Group in January 2013, from November 2009 to December 2012, Ms. Li was a buyer for Shenzhen Howking Technology Co., Ltd. (深圳市濠璟科技有限公司), where she was responsible for procurement logistics.

Ms. Li graduated from Hunan Vocational College of Commerce (湖南商務職業技術學院) majoring in marketing in the PRC in June 2018.

Report of Directors

The Board is pleased to present its annual report and the audited financial statements of the Group for the year ended 31 December 2022.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on August 25, 2021 as an exempted company with limited liability. The Shares were listed on the Main Board of the Stock Exchange on December 12, 2022 by way of Global Offering. The Company issued 36,000,000 Shares at an offer price of HK$2.73 per Share on the Stock Exchange by the Global Offering. The net proceeds from the Global Offering, after deducting the underwriting fees and commissions and related expenses, was approximately HK$47.1 million.

SHARE CAPITAL

Details of the share capital of the Company during the Reporting Period are set out in note 26 to the financial statements.

PRINCIPAL BUSINESSES AND ACTIVITIES

The Group is a PRC provider for (i) data transmission and processing services for IoT applications and (ii) telecommunication equipment, serving a broad range of industrial customers. The Group mainly provides customized data transmission and processing services to customers in manufacturing, municipal services and other industries in the PRC, and researches, develops and sells telecommunication equipment. To a lesser extent, the Group also generates revenue from provision of other services, such as telecommunication equipment maintenance and telecommunication consulting services.

BUSINESS REVIEW

The Group's business review for the year is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. The Group's future business development discussion is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. The key financial performance indicators used in the Group's performance analysis for the year are set out in the section headed "Five Year Financial Summary" in this annual report. The Group's results for the year ended 31 December 2022 are set out in the section headed "Consolidated Statement of Comprehensive Income" in this annual report.

DIVIDEND POLICY

The Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board. The declaration or recommendation of declaration of dividends is subject to the discretion of the Board. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group.

In deciding whether to recommend the payment of dividend to Shareholders, the Board will take into account various factors, including but not limited to, general business conditions, the financial condition and results of operations, the capital requirements and future prospects of the Group.

The payment of dividend is also subject to applicable laws and regulations and the Company's constitutional documents. No dividend shall be paid otherwise than out of profits available for distribution.

Report of Directors

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended December 31, 2022.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the Shareholders to attend and vote at the 2023 AGM to be held on Tuesday, May 30, 2023, the register of members of the Company will be closed from Wednesday, May 24, 2023 to Tuesday, May 30, 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for attending and voting at the 2023 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, May 23, 2023.

AUDIT COMMITTEE

The Audit Committee, consisting of three independent non-executive Directors, namely, Mr. Gu Jiong (Chairman), Mr. Fong Wo, Felix and Mr. Yang Hai, has reviewed the audited consolidated financial statements of the Group for the year ended December 31, 2022, including the accounting principles and practices adopted by the Group and has recommended for the Board's approval thereof. There is no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

RESERVES

Details of movements in the reserves of the Company during the Reporting Period are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

As of December 31, 2022, the amount of reserves available for distribution of the Company was approximately RMB167.8 million.

DONATIONS

During the Reporting Period, the Group made charitable donations of approximately RMB100,000.

Report of Directors

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares have been listed on the Main Board of the Stock Exchange since December 12, 2022. The net proceeds from the Global Offering, after deducting the underwriting fees, commissions and related expenses, was HK$47.1 million (the "**Net Proceeds**"). The Group will continue to utilize the Net Proceeds from the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The intended application of the net proceeds as stated in the Prospectus and the actual utilization of the net proceeds from the Listing Date up to December 31, 2022 is set out below:

Purpose	Approximate percentage of Net Proceeds	Allocation of Net Proceeds (HK$ million)	Utilized Net Proceeds since the Listing Date and up to December 31, 2022 (HK$ million)	Unutilized Net Proceeds as of December 31, 2022 (HK$ million)	Expected timeline for the use of unutilized Net Proceeds (Note 1)
Furthering research and development to improve the Group's private 5G network services					
• Recruit technology talents to expand the Group's R&D team	37.2%	17.5	0.0	17.5	By December 2024
• Software licensing and purchasing customized hardware equipment	11.7%	5.5	0.0	5.5	By December 2024
Researching and developing industrial WLAN	15.7%	7.4	0.0	7.4	By December 2024
Developing a common digitalization foundation to further upgrade the Group's Universal IoT Platform	8.7%	4.1	0.0	4.1	By December 2024
R&D infrastructure upgrading	7.4%	3.5	0.0	3.5	By December 2024
Strengthening business development capabilities	9.9%	4.7	0.0	4.7	By December 2024
Additional working capital and other general corporate	9.3%	4.4	0.0	4.4	By December 2024
Total		47.1	0.0	47.1	

Note:

During the period from the Listing Date and up to December 31, 2022, the Net Proceeds had been used according to the purposes as stated in the Prospectus, and there were no material change or delay in the use of the Net Proceeds.

Report of Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the Group's revenue generated from the five largest customers of the Group amounted to approximately RMB166.1 million, representing approximately 51.3% of the Group's total revenue; and the revenue generated from the largest customer of the Group amounted to approximately RMB44.2 million, representing approximately 13.7% of the Group's total revenue. During the Reporting Period, purchases from the five largest suppliers of the Group amounted to approximately RMB106.4 million, representing approximately 46.2% of the Group's total purchases; and purchases from the largest supplier of the Group amounted to approximately RMB27.3 million, representing approximately 11.9% of the Group's total purchases. During the Reporting Period, to the best knowledge of the Directors, none of the Directors, their close associates, or Shareholders (which, to the knowledge of the Directors, owned more than 5% of the number of issued Shares) had interests in the five largest suppliers or customers of the Group.

DIRECTORS

The Directors since the Listing Date up to the Latest Practicable Date were:

Executive Directors

Dr. Chen Ping *(Chairman)*
Ms. Wang Zheshi
Mr. Feng Yijing
Mr. Wang Jun

Independent Non-executive Directors

Mr. Gu Jiong
Mr. Fong Wo, Felix
Mr. Yang Hai

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive Directors to be independent.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from November 11, 2022, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors has entered into any service contract/letter of appointment with the Company or any of its subsidiaries which was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

CHANGE IN INFORMATION OF DIRECTORS

Below is the change of Director's information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Gu Jiong (顧炯), has resigned as an independent non-executive director of DaFa Properties Group Limited (大發地產集團有限公司) (stock code: 6111) on January 10, 2023.

Save as disclosed above and in this annual report, there was no other information of Directors which shall be disclosed under Paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the Listing Date and up to the date of this annual report.

NON-COMPETITION UNDERTAKINGS

On November 11, 2022, each of the Group's Controlling Shareholders (each a "**Covenantor**" and collectively, the "**Covenantors**") has given an irrevocable non-competition undertaking in favor of the Company (for itself and for benefit of each of the members of the Group) under the Deed of Non-competition pursuant to which, each of the Covenantors has irrevocably, unconditionally and severally undertaken with the Company that, among others, with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors are individually or collectively with any of their respective close associates interested directly or indirectly in not less than 30% of the then issued Shares (the "**Restricted Period**"), each Covenantor shall not, and shall procure that their respective close associates will not:

(i) save for engaging in the Restricted Business (as defined below) through the Group, directly or indirectly, whether on its own account or in conjunction with or on behalf of any person, carry on, develop, invest in, engage in, participate or be interested in or acquire or hold any right or interest in or otherwise be involved in any business (whether as owner, director, operator, licensor, licensee, partner, shareholder, joint venture, employee, consultant, agent or otherwise) in competition with or likely to be in competition with the existing business carried on by the Group in the PRC and any part of the world (the "**Restricted Business**");

(ii) directly or indirectly take any action which constitutes an interference with or a disruption of the Restricted Business including, but not limited to, (a) soliciting the Group's customers, suppliers, employees or personnel of any member of the Group; (b) inducing or soliciting any person to induce any competition or suspension of the business of the Group; and (c) engaging in any business or activity on its own account or jointly with any person, that uses any trade name or trademark (registered or non-registered) of the Group, or any name of the Group that is used in association with the Group's business or activity at intervals, or any fraudulent imitations (except for circumstances in which the Group is involved); and/or

(iii) without the prior consent from the Company, make use of any information pertaining to the business of the Group which may have come to their knowledge in the capacity as the Controlling Shareholders for any purpose of engaging, investing or participating in any Restricted Business.

Each of the Covenantors also undertakes to procure that, during the Restricted Period, any business investment or other commercial opportunity within and/or outside the PRC relating to the Restricted Business (the "**Business Opportunity**") identified by or offered to the Covenantors and/or any of their close associates (the "**Offeror**") is first referred to the Company in the following manner:

(i) the Covenantors are required to, and shall procure their close associates to, refer, or procure the referral of, the Business Opportunity to the Company, and shall give written notice to the Company of any Business Opportunity containing all information reasonably necessary for the Company to consider whether (a) the Business Opportunity would constitute competition with its core business and/or any other new business which the Group may undertake at the relevant time, and (b) it is in the interest of the Group to pursue the Business Opportunity, including but not limited to the nature of the Business Opportunity and the details of the investment or acquisition (the "**Offer Notice**") within 30 business days of identifying the Business Opportunity; and

Report of Directors

(ii) the Offeror will be entitled to pursue the Business Opportunity only if (a) the Offeror has received a written notice from the Board declining the Business Opportunity and confirming that the Business Opportunity would not constitute competition with the core business of the Company, or (b) the Offeror has not received the notice from the Board within 20 days from the receipt of the Offer Notice, provided that the principal terms by which the Offeror subsequently pursues the Business Opportunity are substantially the same and are not more favorable than those made available to the Company; if there is a material change in the terms and conditions of the Business Opportunity pursued by the Offeror, the Offeror shall refer to the Business Opportunity as so revised to the Company again in the manner as set out above as if it were a new Business Opportunity and that the terms of such pursuance, whether directly or indirectly, shall be disclosed to the Company and the Directors as soon as practicable.

Upon receipt of the Offer Notice, the Company shall seek opinions and decisions from the Board (other than Directors who have a material interest in the matter) as to whether (a) such Business Opportunity would constitute competition with the Company's core business, and (b) it is in the interest of the Company and the Shareholders as a whole to pursue the Business Opportunity. Any Director who has material interest in the Business Opportunity shall abstain from voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such Business Opportunity.

Notwithstanding the aforesaid, the non-competition undertaking as set out above shall not prevent the Covenantors and their respective close associates from holding or being interested in a direct or indirect shareholding interest of not more than 5% of the issued shares in a company listed on a recognized stock exchange and engaged in any Restricted Business provided that the relevant Covenantors and/or their respective close associates do not control the majority of the composition of the board of directors of that company.

The Company has received confirmations from each of the Covenantors confirming that they have complied with the undertakings under the Deed of Non-Competition during the period from the Listing Date and up to December 31, 2022.

The independent non-executive Directors have reviewed the status of compliance and confirmed that the Controlling Shareholders have complied with all such non-competition undertakings during the period from the Listing Date and up to December 31, 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the section headed "Relationship with our Controlling Shareholders" in the Prospectus, none of the Directors had any interest in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group under Rule 8.10 of the Listing Rules during the Reporting Period.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 30 to the financial statements, there were no transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors or an entity connected with the Directors or the controlling shareholders of the Company had a material interest, whether directly or indirectly, during Reporting Period.

MANAGEMENT CONTRACTS

During the Reporting Period, the Company did not enter into any contract, other than the contracts of service with the Directors or any person engaged in the full-time employment of the Company, whereby any individual, firm or body corporate undertakes the management and administration of the whole, or any substantial part of any business of the Company.

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

As of December 31, 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code, were as follows:

Long Position in the Shares

Name of Director or chief executive	Capacity/ Nature of interest	Number of Shares	Total	Approximate percentage of interest in the Company
Dr. Chen Ping (陳平)[2]	Interest of spouse	121,124,579	121,124,579	53.83%
Ms. Wang Zheshi (王者師)[3]	Interest of corporation controlled	121,124,579	121,124,579	53.83%

Notes:

1. The calculation is based on the total number of 225,000,000 Shares in issue as of December 31, 2022.

2. Dr. Chen Ping, an executive Director, is the spouse of Ms. Wang Zheshi. Therefore, Dr. Chen Ping is deemed to be interested in any Shares held by Ms. Wang Zheshi by virtue of the SFO.

3. Howkingtech Holding Limited is directly held as to 56.80% by Ms. Wang Zheshi. By virtue of the SFO, Ms. Wang Zheshi is therefore deemed to be interested in any Shares in which Howkingtech Holding Limited is interested.

Save as disclosed above, so far as the Directors are aware, as of December 31, 2022, none of the Directors or chief executive of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code.

Report of Directors

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

As of December 31, 2022, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

Long Position in the Shares

Name	Capacity/ Nature of interest	Number of Shares	Total	Approximate percentage of interest in the Company
Howkingtech Holding Limited	Beneficial owner	121,124,579	121,124,579	53.83%
Ms. Jin Yan (金豔)[2]	Interest of controlled corporation	121,124,579	121,124,579	53.83%
Shanghai Jinyuan Changfu Enterprise Management Partnership (Limited Partnership) ("**Shanghai Jinyuan**") (上海進源長富企業管理合夥企業(有限合夥))[3]	Beneficial owner	14,214,780	14,214,780	6.32%
Shenzhen Huixin Qianhai Equity Investment Enterprise (LLP) ("**Huixin Qianhai**") (深圳匯信前海股權投資企業(有限合夥))[3]	Interest of controlled corporation	14,214,780	14,214,780	6.32%
Ningbo Huixin Zhiyuan Investment Management Partnership (LLP) ("**Ningbo Huixin**") (寧波匯信致遠投資管理合夥企業(有限合夥))[3]	Interest of controlled corporation	14,214,780	14,214,780	6.32%
Ningbo Xinhui Qianhai Equity Investment Co., Ltd. ("**Ningbo Xinhui**") (寧波信匯前海股權投資有限公司)[3]	Interest of controlled corporation	14,214,780	14,214,780	6.32%
Ms. Xie Xiongqing (謝雄清)[4]	Interest of controlled corporation	14,214,780	14,214,780	6.32%
Mr. Ye Xiang (葉翔)[4]	Interest in controlled corporation	14,214,780	14,214,780	6.32%
Ms. Ban Lifeng (班麗鳳)[4]	Interest in controlled corporation	14,214,780	14,214,780	6.32%
Ms. Ding Di (丁迪)[5]	Interest of controlled corporation	3,061,618		
	Interest of spouse	10,656,973		
			13,718,591	6.10%
Mr. Wu Chak Man (胡澤民)[5]	Beneficial owner	10,656,973		
	Interest of spouse	3,061,618		
			13,718,591	6.10%

Report of Directors

Notes:

1. The calculation is based on the total number of 225,000,000 Shares in issue as of December 31, 2022.

2. Howkingtech Holding Limited is directly held as to 43.20% by Ms. Jin Yan. By virtue of the SFO, Ms. Jin Yan is therefore deemed to be interested in any Shares in which Howkingtech Holding Limited is interested.

3. Huixin Qianhai holds 99.99% interest in Shanghai Jinyuan as the sole general partner. Therefore, Huixin Qianhai is deemed to be interested in any Shares held by Shanghai Jinyuan by virtue of the SFO. Further, Ningbo Huixin holds 1.04% interest as the sole general partner of Huixin Qianhai, whose sole general partner is Ningbo Xinhui holding 1.00% in Ningbo Huixin. As such, by virtue of the SFO, each of Ningbo Xinhui, Ningbo Huixin and Huixin Qianhai is therefore deemed to be interested in any Shares in which Shanghai Jinyuan is interested.

4. Ms. Xie Xiongqing holds 34.72% interest in Huixin Qianhai as a limited partner, and each of Mr. Ye Xiang and Ms. Ban Lifeng holds 49.50% interest respectively in Ningbo Huixin as a limited partner. Ningbo Xinhui is also owned as to 50% by Mr. Ye Xiang and 50% by Ms. Ban Lifeng. As such, by virtue of the SFO, each of Ms. Xie Xiongqing, Mr. Ye Xiang and Ms. Ban Lifeng is deemed to be interested in any Shares in which Huixin Qianhai is interested.

5. Ms. Ding and Mr. Wu Chak Man are the spouse of each other, and are therefore deemed to be interested in any Shares in which one another is interested as well as the 3,061,618 Shares held by Zhangzhou Merchants Economic Development District HeZe Limited Partnership (LLP) ("**Zhangzhou Heze**") by virtue of the SFO.

   Ningbo Meishan Bonded Port Mofan Investment Management Co., Ltd. ("**Ningbo Meishan**") holds 0.59% interest in Zhangzhou Heze as the sole general partner. Ningbo Meishan is in turn owned as to 99% by Ms. Ding Di. By virtue of the SFO, each of Ningbo Meishan and Ms. Ding is therefore deemed to be interested in any Shares in which Zhangzhou Heze is interested.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme" below, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate during the period from the Listing Date and up to December 31, 2022.

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "Share Option Scheme" below, the Company did not enter into any equity-linked agreement during the period from the Listing Date and up to December 31, 2022.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has maintained appropriate liability insurance for its Directors and senior management.

Report of Directors

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme approved and adopted by the written resolutions of all Shareholders of the Company passed on November 11, 2022. The Directors confirm that the terms of the Share Option Scheme comply with the requirements under Chapter 17 of the Listing Rules.

(a) Purpose

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contribution to, and continuing efforts to promote the interests of, the Group and for such other purposes as the Board may approve from time to time.

(b) Who may join

The Board may, at its absolute discretion, offer eligible persons (being any director or employee (whether full time or part time), consultant or advisor of the Group who in the sole discretion of the Board has contributed to and/or will contribute to the Group) (the "**Eligible Persons**") to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme.

(c) Maximum number of Shares

(i) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

(ii) Subject to paragraphs (c)(i), (iv) and (v), at the time of adoption by the Company of the Share Option Scheme or any new share option scheme (the "**New Scheme**"), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time (the "**Existing Schemes**") of the Company must not in aggregate exceed 10% of the total number of the Shares in issue as of the Listing Date (the "**Scheme Mandate Limit**").

(iii) For the purposes of calculating the Scheme Mandate Limit under paragraph (c)(ii), Shares which are the subject matter of any options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted.

(iv) The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:

- the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of issued Shares as of the date of Shareholders' approval of the refreshment of the Scheme Mandate Limit;

- options previously granted under any Existing Schemes (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed; and

- a circular regarding the proposed refreshment of the Scheme Mandate Limit has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules.

As of the date of this annual report, the total number of shares available for issue under the Share Option Scheme is 22,500,000 Shares, representing 10% of the issued Shares as of the date of this annual report.

(v) The Company may seek separate approval from the Shareholders in the general meeting for granting options which will result in the Scheme Mandate Limit being exceeded, provided that:

- the grant is to Eligible Persons specifically identified by the Company before the approval is sought; and

- a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules and other applicable laws and rules, in accordance with the terms of the Share Option Scheme.

(d) Maximum number of options to any one individual

No option shall be granted to any Eligible Person (the "**Relevant Eligible Person**") if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all Options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the Relevant Eligible Person in the 12-month period expiring on the date on which an offer of the grant of an option under the Share Option Scheme is made to the Relevant Eligible Person would exceed 1% of the total number of Shares in issue at such time, unless:

- such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by ordinary resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and his associates abstained from voting;

- a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules; and

- the number and terms (including the Subscription Price) of such options are fixed before the general meeting of the Company at which the same are approved.

Report of Directors

(e) Price of Shares

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be a price solely determined by the Board and notified to all Eligible Person and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option (the "**Offer Date**"), which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer to grant option (provided that the new issue price shall be used as the closing price for any business day falling within the period before the listing Shares where the Company has been listed for less than five business days as of the Offer Date); and (iii) the nominal value of the Share. A consideration of RMB1.0 is payable on acceptance of the offer of an option or options.

(f) Time of exercise of option

Subject to the provisions of the Listing Rules and other applicable laws and regulations, the Board may in its absolute discretion when offering the grant of an option impose an y conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the offer letter) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry by giving notice in writing to the Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Share Option Scheme by Shareholders by resolution at a general meeting.

During the Reporting Period, no share option was granted, exercised, expired, cancelled or lapsed and there was no outstanding share option under the Share Option Scheme. Accordingly, the number of Shares that may be issued in respect of options granted under the Share Option Scheme of the Company during the Reporting Period divided by the weighted average number of Shares in issue (i.e. 190,972,603 Shares) is nil.

Report of Directors

The number of options available for grant under the Share Option Scheme mandate as of the adoption date and the end of the Reporting Period are 22,500,000 and 22,500,000, respectively.

The remaining life of the Share Option Scheme is nine years and eight months.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as of the date of this annual report, the Directors confirm that the Company had maintained the prescribed public float under the Listing Rules as of the Latest Practicable Date.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares of the Company on a pro-rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There were no other significant events that required additional disclosure or adjustments occurred after the end of the Reporting Period and up to the date of this annual report.

CONNECTED TRANSACTIONS

During the Reporting Period, the Group did not have any transactions with any of its connected persons, which was not fully exempt from shareholders' approval, annual review and all disclosure requirements under the Chapter 14A of the Listing Rules.

Report of Directors

RELATED PARTY TRANSACTIONS

The related party transactions undertaken during the Reporting Period are set out in note 30 to the financial statements which do not constitute connected or continuing connected transactions under Chapter 14A of the Listing Rules. The Company has complied with all relevant disclosure requirements as set out in Chapter 14A of the Listing Rules.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is committed to environmental protection and promoting corporate social responsibility and best corporate governance practices for the sustainable development and take up responsibilities as a corporate citizen. The Company has established ESG policies in accordance with the standards of Appendix 27 to the Listing Rules, which outlined, among others, (i) appropriate risk governance on ESG matters, including climate-related risks and opportunities; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG strategy formation procedures; (iv) ESG risk management and monitoring; and (v) the identification of key performance indicators, the relevant measurements and mitigating measures.

Details of environmental policies and performance of the Company will be disclosed in the Environmental, Social and Governance Report contained in this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 1 to the financial statements.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2022 have been audited by Ernst & Young, the auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor of the Company at the 2023 AGM. A resolution will be proposed at the 2023 AGM to reappoint Ernst & Young as the auditor of the Company and to authorize the Board to fix the remuneration of the auditor. There was no change in the auditor of the Company in the preceding three years.

COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Group had not been and were not involved in any non-compliance incidents that led to fines, enforcement actions or other penalties that could, individually or in the aggregate, had a material adverse effect on the Group's business, financial condition or results of operations. As far as the Company is aware, the Group had complied with all relevant laws and regulations in the jurisdictions which the Group operated in during the Reporting Period in all material respects.

Report of Directors

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business may be materially and adversely affected by these risks, including the following:

Risk Category	Risk Description	Response to Risk
Operational Risk	The Group's business relies on a limited number of customers, and the Group derived a significant portion of the revenue from the Group's top five customers. Changes of customer demand, business model or strategy may result in the decrease or loss of business with customers, which could adversely affect the Group's business. The Group is exposed to credit risk related to defaults of the Group's customers. If the relationship between the Group and any of its customers is terminated or deteriorated, or if any of the Group's customers experience financial difficulties in settling the trade receivables, the risks for uncollectible receivables may increase, which might cause working capital pressure for the Group and could adversely impact the Group's financial condition and results of operations.	The Group has been actively improving the after-sales service system, protecting the rights and interests of customers to maintain good customer relations, and continuing to upgrade technology, exploring a variety of diversified business development models to achieve the diversified development of our businesses. By establishing a risk control plan, the Group will strengthen the management of trade receivables, conduct daily supervision, and continue to track long-aging trade receivables to ensure that risks are effectively controlled.
Compliance Risk	The Group could be adversely and materially affected as a result of business activities with certain entities or in countries or territories that are, or may become subject to, sanctions administered by the United States, the European Union, the United Kingdoms, the United Nations, Australia and other relevant sanctions authorities. Moreover, in the event that any of the Group's customers becomes subject to economic sanctions in the future, the Group may have to discontinue its business with such customers due to potential economic sanctions liability risks. In such events, the Group's financial results may be materially and adversely affected.	The Group has established a dedicated team of overseas risk control to monitor the uncertainties and potential risks in relation to international sanctions. Moreover, to ensure the effective implementation of the internal risk management policies and procedures, the Group will review and update on a regular basis based on the opinions of the external legal counsel. The Group will strategically choose cooperative partners to avoid possible sanctions risks, for instance, the Group has ceased its business activities in Russia after completing all existing contractual obligations with its Russian distributor in December 2022.

Report of Directors

Risk Category	Risk Description	Response to Risk
	If any of the Group's subsidiaries, employees or other persons engage in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal control policies, the Group could become subject to penalties, fines or sanctions and in turn adversely affect its reputation, business, financial condition and results of operations.	The Group will strengthen training on anti-corruption, anti-money laundering, anti-bribery and other relevant laws and regulations for the Group's directors, senior managers and employees. The Group will also implement a whistleblowing mechanism to encourage staff to report any irregularities to their supervisors and if their legitimate concerns are ignored or covered up, they can report directly to the Board.
Strategic Risk	The Group operates in a rapidly evolving industry and 5G technologies are expected to be iterated by the next generation of cellular technology. If the Group fails to continuously upgrade its technology and provide useful services and products that meet the expectation of its customers, the Group may fail to retain existing customers and attract new customers in sufficient numbers, and its business, results of operations and prospects may be materially and adversely affected.	The Group will continue to capture the market opportunities, increase investment in research and development and make other efforts in response to market constant changes.
	The Group's success depends on the continuing efforts of its senior management and key personnel. If the Group's senior management is unable to work together effectively or efficiently or if the Group fails to recruit, retain, train and motivate its personnel, the Group's business may be severely disrupted, and its financial condition and results of operations may be materially and adversely affected.	The Group will improve its continuing ability to attract, recruit and train a large number of qualified employees and retain existing key employees. What's more, the Group will strengthen the training of employees, especially the research and development team, improve the salary and welfare system, and provide effective promotion channels, so as to motivate the employees of the Group.

Report of Directors

Risk Category	Risk Description	Response to Risk
ESG Risks	**Resources and energy management** Ineffective resources and energy management may potentially lead to excessive energy usage, which leads to increased operational cost.	• Promoting energy conservation and environmentally friendly procurement practices • Reviewing and accounting for greenhouse gas emissions and resource consumptions • Performing overall waste management in the office and testing and assembly center
	Impact of climate change Climate change may lead to risks of more frequent extreme weather conditions. Such risks may lead to potential injuries to employees and increase in insurance premiums in long term. Regulators may require increasing disclosure on emission and tighten environmental regulations. Such transitional risks which require the Group to move towards a sustainable business model may potentially lead to impacts such as increased operational cost from change of operational practices.	• Providing work arrangements for bad weather and/or extreme conditions to mitigate potential injuries to employees and increase in insurance premiums • Monitoring the changes in ESG-related regulatory requirements and market trend • Assessing the energy consumption proportion in our operation comprehensively and optimizing the corresponding procedures
	Human capital development Insufficient resources devoted towards the development of human capital, such as lack of training and promotion opportunities, may put the Group at risk of higher turnover rates and less competent workforce in medium and long term. Strong human capital development and the provision of competitive remuneration packages may improve employee retention and dedication.	• Providing employees with competitive social benefits and career development opportunities
	Privacy and data security Ineffective privacy and data protection policies may put the Group at risk of data leakages and privacy breaches, leading to increased costs in addressing regulatory actions, involving litigations and potential fines, and also potentially tarnishing the Group's reputation.	• Requiring employees to sign non-disclosure agreement to mitigate privacy and data security risks

Report of Directors

RELATIONSHIPS WITH STAKEHOLDERS

The Group acknowledges the importance of stakeholders to corporate development and pays attention to matters of concern to stakeholders including the government and regulators, shareholders and investors, employees, business partners, suppliers, customers and the community. The Group maintains transparent and bilateral exchange, strengthens mutual trust and cooperation and establishes harmonious relationship with its stakeholders. The Group's success depends on the support from key stakeholders which comprise the Directors and senior management, employees, customers and suppliers.

For details on the Group's relationships with employees, customers and suppliers during the Reporting Period, please refer to the Environmental, Social and Governance Report contained in this annual report.

By order of the Board
Howkingtech International Holding Limited
Chen Ping
Chairman

Hong Kong, March 27, 2023

Environmental, Social and Governance Report

1 ABOUT THIS REPORT

This is the first annual Environmental, Social and Governance (ESG) Report (the "**Report**") of Howkingtech International Holding Limited ("**Howkingtech**", the "**Company**" or "**We**"). During the preparation of this Report, we endeavor to ensure the information contained herein meet the requirements of the Stock Exchange in terms of materiality, quantification, balance and consistency, and to give a comprehensive interpretation of the Company's management approach and performance with respect to ESG in 2022. We will continue to strengthen our information collection for the Report to enhance our performance and disclosure on sustainability, and facilitate the understanding and communication between stakeholders and the Company such that the Company shows improvement continuously.

2 SCOPE OF THE REPORT

The policy documents, statements and information contained in the Report cover the Company and its subsidiaries and consolidated affiliated entities for the relevant period, and its content covers a period from January 1, 2022 to December 31, 2022 (the "**Reporting Period**") and its scope is consistent with that of the annual report of the Company. For details of the Company's compliance with the requirements of the corporate governance, please refer to the "Corporate Governance Report" in the Company's annual report for the year ended December 31, 2022.

3 STANDARD OF THE REPORT

This Report has complied with the Environmental, Social and Governance Reporting Guide (the "**Guide**") as set forth under Appendix 27 of the Listing Rules of the Stock Exchange of Hong Kong and discloses the Company's contribution to the Sustainable Development Goals (SDGs) of the United Nations (UN).

4 DATA SOURCES AND RELIABILITY DESCRIPTION

All data in the Report are extracted from the Company's statistical reports and relevant documents. The Company undertakes that there is no false information or misleading statements herein and is liable for its authenticity, accuracy and completeness.

The Board and senior management team of the Company monitor the content of the Report to ensure that it is free from any false information, misleading statements or material omissions.

This Report has been approved for publication by the Board on March 27, 2023.

Environmental, Social and Governance Report

5 THE BOARD STATEMENT

In order to carry out the sustainable development concept and integrate it into the Company's business development, the Company has established a top-down ESG management structure. As the highest ESG decision-making body of the Company, the Board is fully responsible for managing and supervising matters relating to the Company's ESG, reviewing and approving ESG policies, performance and information disclosures, directing and reviewing the formulation of the main ESG objectives of Company. The Environmental, Social and Governance Working Group ("**ESG Working Group**") is responsible for assisting the Directors in implementing the agreed ESG policies, objectives and strategies, making objective evaluation on the results and effectiveness of the ESG work on a regular basis, participating in the identification of key ESG risks and the formulation of countermeasures, and making recommendations and reporting to the Board regarding the ESG matters. All relevant business departments are responsible for daily ESG management and report to the ESG Working Group on a regular basis to ensure that all work is carried out properly.

During the Reporting Period, the Company attached importance to the expectations and demands of all stakeholders, identified and evaluated important ESG issues through interviews and questionnaires. The evaluation results were discussed and reviewed by the Board and disclosed in the sections headed "Communication with Stakeholders" and "Analysis on Material Issues" in this Report. Material issues have also been responded to in the Report, including the Company's risks in relevant ESG issues (including risks on climate change).

6 RESPONSES TO THE ESG REPORTING PRINCIPLES OF THE STOCK EXCHANGE

Materiality principle: In compliance with the relevant regulatory requirements such as the ESG Reporting Guide of the Stock Exchange, the Company communicated and exchange ideas with various stakeholders by different means, with benchmark analysis on the issues disclosed in the ESG reports of its industry peers and conducted an in-depth analysis of the highlights and characteristics of the Company to ultimately identify and select its material issues on sustainability.

Quantification principle: In accordance with the ESG Reporting Guide, the Company has prepared statistics for and summarized the quantitative key disclosure indicators under the entire "environmental" scope and part of the "social" scope, disclosed the standards and methods used in the statistics and calculation, and formulated the environmental and social performance table so that key indicators could be evaluated and verified.

Balance principle: The Report aims at reviewing and disclosing the Company's management practices and performance in ESG from an objective and fair perspective.

Consistency principle: Compared with the annual report of the Company, the Report made no significant adjustment to the scope of disclosure, and the standards and methodologies used in calculating the quantitative key indicators were consistent to ensure the comparability of the content of the Report.

Environmental, Social and Governance Report

7 ESG GOVERNANCE

7.1 ESG Governance Structure

The Company has established an ESG governance structure comprising the Board, the ESG Working Group, and business and functional departments to meet the needs of the Company in sustainable development, strengthen the research and planning of sustainable development strategies, and improve its capability to deal with and manage ESG risks.

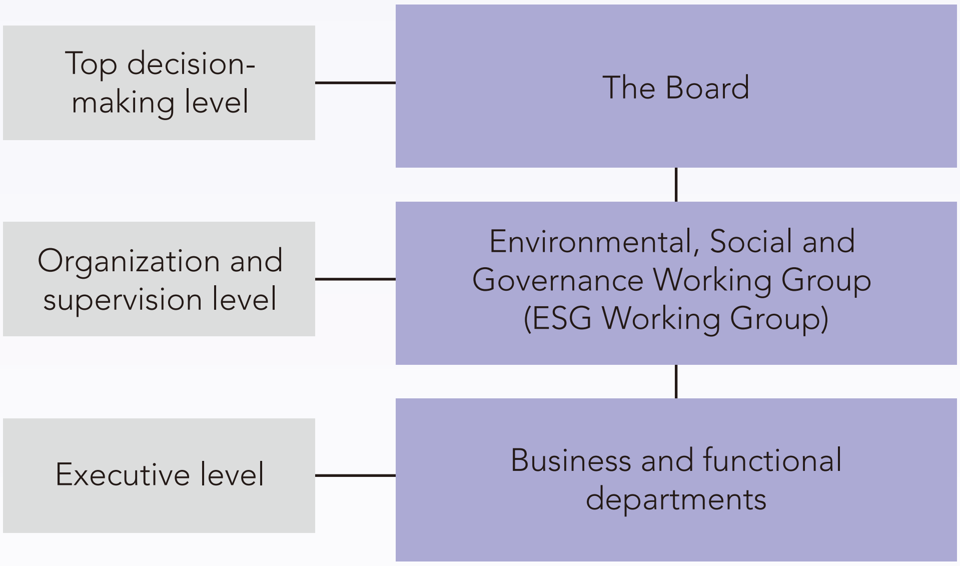


Figure: ESG governance structure of the Company

The Board, comprising four executive Directors and three independent non-executive Directors, is the Company's top decision-making body on ESG-related matters and is fully responsible for the Company's ESG policies, initiatives and performance. The Board is responsible for guiding the management and supervision of ESG-related issues, assessing the Company's key ESG risks and the effectiveness of response measures on a regular basis; reviewing the materiality assessment and prioritization of ESG issues and reviewing the Company's performance on ESG-related objectives; reviewing and approving ESG disclosures to ensure compliance with the requirements and expectations of regulators and investors at all times.

Environmental, Social and Governance Report

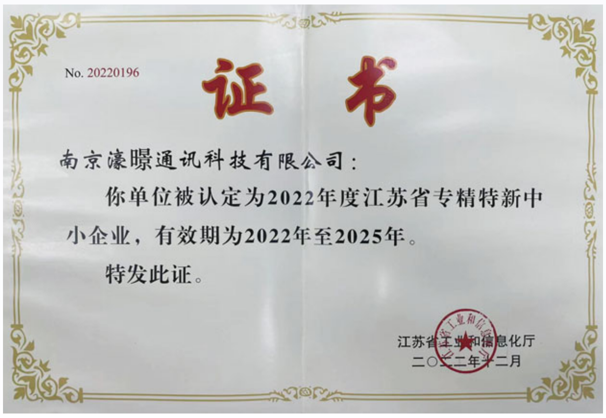
The ESG Working Group consists of three members, namely the General Manager, Finance Manager and Administration Manager, and is primarily responsible for assisting the Directors in implementing the agreed ESG policies, objectives and strategies. Its responsibilities and authorities mainly include: developing and reviewing the Company's ESG-related visions, goals and strategic plans and monitoring their implementation on an ongoing basis; assessing the importance of key ESG risks and how the Company adapts its operations to climate change and developing countermeasures; formulating the Company's ESG-related management system; reviewing the Company's annual ESG report to ensure that it is prepared in accordance with the Environmental, Social and Governance Reporting Guidelines and complies with the relevant regulations; conducting objective assessment on the results and effectiveness of the Group's ESG efforts periodically and making recommendations and reporting to the Board of Directors.

Each of the relevant business and functional departments is responsible for developing and implementing relevant strategies in their respective areas in accordance with the ESG management policies and objectives formulated to ensure the implementation of all work, and shall regularly report to the ESG Working Group.

7.2 Awards

During the Reporting Period, Howkingtech was awarded the title of "2022 Specialized, Sophisticated, Unique and Innovative Small and Medium-Sized Enterprises in Jiangsu Province (2022年度江蘇省專精特新中小企業)" by virtue of its unique advantages in technology and products and the competitive edges in its own industry. In addition, the Company was awarded the "2022 Nanjing Gazelle Enterprise (2022年度南京市瞪羚企業)" for its outstanding advantages of fast growth, strong innovation ability, new area of expertise and great development potential.

Picture: the Company was awarded the trophy of "2022 Nanjing Gazelle Enterprise"



Picture: the Company obtained certification of "2022 Specialized, Sophisticated, Unique and Innovative Small and Medium-Sized Enterprises in Jiangsu Province"

Environmental, Social and Governance Report

8 ACTIVE SUPPORT FOR THE SUSTAINABLE DEVELOPMENT GOALS

The UN Sustainable Development Goals (SDGs) aim to guide countries around the world in addressing development issues in the three major areas of economy, society and environment, and to encourage all parties, including enterprises, to actively contribute their own efforts to achieve sustainable development. Based on its business characteristics, Howkingtech has identified a series of priorities within the SDGs framework that are most important to the development of the Company and has integrated ESG management concepts to guide the Company's ESG efforts.

While pursuing business growth, we actively seek the common development of commercial value and social value, and have taken a number of actions in the identified key areas of SDGs as set out below.

Figure: 17 UN Sustainable Development Goals

Environmental, Social and Governance Report

UN Sustainable Development Goal	Description of Goals	Our action
3 Good health and welling	Ensure healthy lives and promote well-being for all at all ages	• We care about the health and safety of our employees, and pay medical insurance and arrange annual physical examinations for them • We actively responded to the national epidemic prevention and control policy by providing employees with epidemic prevention and control materials and introducing measures to adjust the office location and hours of employees to ensure their physical and mental health
4 Quality education	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	• We provide pre-job and on-the-job training programs for employees, focusing on the improvement of employees' professional ability • We are passionate about rural education, support the growth of rural teachers through donations, thereby helping rural children to gain equitable education
5 Gender equality	Achieve gender equality and empower all women and girls	• We firmly oppose gender discrimination, create a fair and equitable work environment and provide equal employment and promotion opportunities for women
8 Decent working and economic growth	Ensure decent working in all regions and drive regional economic growth	• We are actively involved in local development, provide quality jobs in the industry and drive economic development • We are committed to building a competitive career development platform and offering reasonable remuneration and benefits • We have established and improved the recruitment and leave system, and employees are encouraged to use annual leave and time off in lieu to balance work and life

Environmental, Social and Governance Report

UN Sustainable Development Goal	Description of Goals	Our action
9 Industry, innovation and infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation	• We insist on innovation and development, constantly expand our R&D department, and focus on the R&D and production of communication equipment and 5G technology • We actively promote the implementation of IoT in industrial and smart city scenarios to improve the efficiency and security of data transmission
10 Reduced inequality	Reduce inequality within and among countries	• We advocate gender equality and equal employment, prohibit the employment of child labor, and protect the legitimate rights and interests of employees • We actively participate in public welfare activities and care for the education development in rural areas • We have established and improved our staff training system, so as to support the development and growth of our employees
12 Responsible consumption and production	Ensure sustainable consumption and production patterns	• We have clarified the quality management process and system with the outsourcing manufacturer, and set up the product inspection and recall mechanism to ensure the product quality is qualified • We have established a data security management system to ensure customer privacy • We continue to perfect pre-sale and after-sales services, strengthen the communication mechanism with customers, and maintain customer satisfaction

Environmental, Social and Governance Report

UN Sustainable Development Goal	Description of Goals	Our action
13 Climate action	Take urgent action to combat climate change and its impact	• We actively create a low-carbon and environmentally friendly corporate culture and raise the environmental awareness of employees, for example, reminding employees to save water and electricity in office area, and setting the operating temperature of air conditioners • We identify and actively respond to climate change risks
16 Peace, justice and strong institutions	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	• We strictly abide by and operate in compliance laws and regulations • We have established a bottom-up anti-bribery, anti-fraud and anti-corruption reporting mechanism

9 STAKEHOLDERS COMMUNICATION

Howkingtech attaches great importance to the participation of stakeholders and is committed to building a good cooperative and mutually beneficial relationship with internal and external stakeholders. The Company actively establishes and expands communication channels, maintains regular and close communication with stakeholders such as the government and regulators, shareholders and investors, customers, employees, suppliers and partners, society and the public, listens and responds to the expectations and demands of different stakeholders, and integrates them into the daily operation and future planning of the Company, in a bid to join hands with stakeholders to achieve win-win results and maximize comprehensive value.

Stakeholders	Expectations and Demands	Communication and Response
Government and Regulators	Comply with laws and regulations Pay tax in accordance with the laws Commercial ethics	Compliance operation Full tax payment Daily communication and reporting
Shareholders and investors	Financial results Information disclosure Business development Communication channels	Regular financial and operational disclosures Regular convening of general meetings Company official website Investor relations email
Customers	Information security Product quality Quality services	Protection of customer information and privacy Product quality testing and recall mechanisms Customer service system
Employees	Labor rights Salaries and benefits Health and safety Career development and advancement	Staff Handbook Internal meetings and notices Safe work environment Annual staff physical examination Performance evaluation Training and team building activities
Suppliers and partners	Integrity in cooperation Commercial ethics and reputation	Supplier evaluation Daily meetings and communication Perform contracts in accordance with the laws
Society and the public	Support social welfare Engagement in community development	Engagement in charity Encourage staff to engage in volunteer services Focus on community investment and contribution

Environmental, Social and Governance Report

10 ANALYSIS ON MATERIAL ISSUES

In order to accurately locate the focus of ESG management practice and comprehensively deepen the practice of ESG issue management, Howkingtech has established an analysis process for material issues to define material ESG issues that are relevant to the sustainable development of the Company and stakeholders.

Identifying material issues: a total of 22 material issues that can affect the Company's business development, or affect the stakeholders' assessment and decision-making of the Company are identified by conducting external policy research, benchmarking analysis of industry peers, industry development trend survey, referencing to other relevant documents and taking into account the Company's development strategy, business characteristics and its own characteristics.

Conducting interviews and market research: third-party experts and consultants are invited to conduct relevant work, prepare and distribute questionnaires on ESG substantive issues and conduct benchmarking of ESG performance of comparable companies in the industry combined with interviews with the Company's management and other stakeholders.

Determining the rank of issues: importance of issues are ranked based on the stakeholder evaluation and questionnaire data, and we confirm the rank of issues for the year after submitting to the management for review.

Verification and reporting: materiality analysis matrix is established according to the assessment results of the issues and we emphasized the disclosure in the report on issues of high importance.

During the Reporting Period, we analyzed and sorted the materiality of ESG issues from two dimensions, being the importance to the Company' operation and stakeholders, through policy research, enterprise interviews, questionnaires and industry benchmarking to gain full understanding of expectations and suggestions from each stakeholder, and to provide basis for the formulation of long-term ESG development strategy. We identified 16 issues of high importance, 3 of moderate importance and 3 of low importance in total.

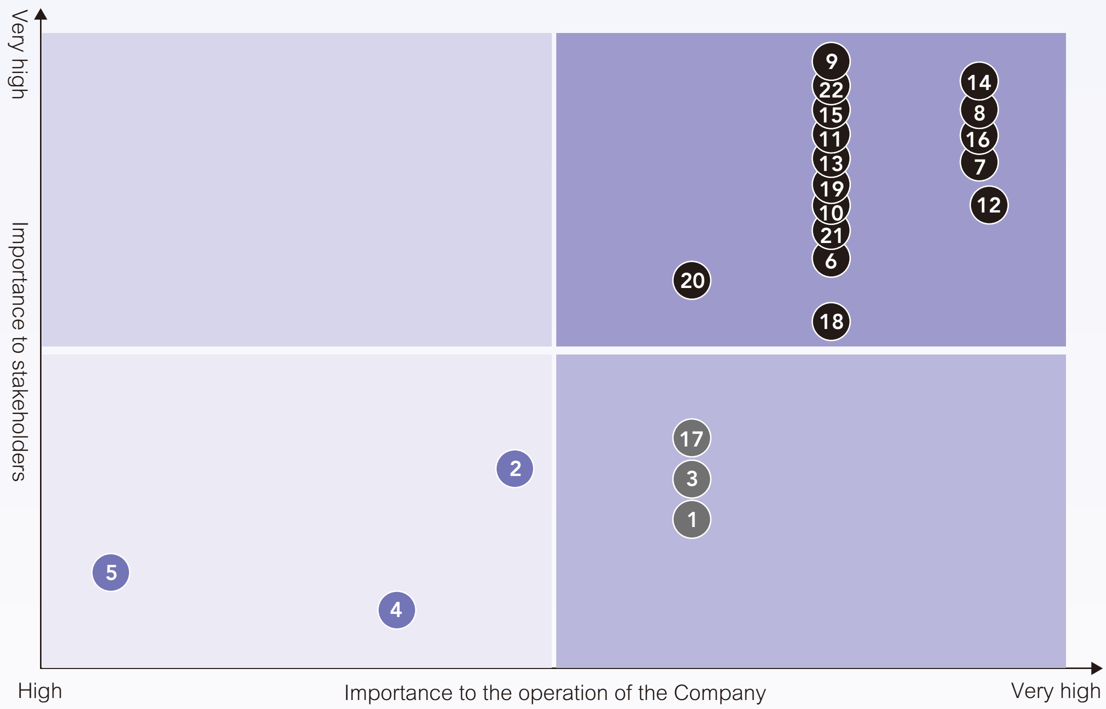


Figure: materiality matrix of Howkingtech

Materiality	No.	Issue name
Issues of high importance	14	Intellectual property protection
	8	Supply chain sustainable development management
	16	Innovative research and development
	7	Responsible procurement
	12	Employees training and development
	9	Information security and privacy protection
	22	Compliance operation
	15	Product quality and reliability
	11	Employee health and safety
	13	Legal and compliance employment
	19	Business ethnics
	10	Employee relations and engagement
	21	Risk and crisis management
	6	Product life cycle Management
	18	Anti-corruption and integrity building
	20	Digital transformation
Issues of moderate importance	17	Community investment and public welfare
	3	Energy management
	1	Water resources management
Issues of low importance	5	Greenhouse gas emissions management
	4	Climate change adaptation
	2	Waste management

Environmental, Social and Governance Report

11 A ENVIRONMENTAL RESPONSIBILITY

11.1 A1 Emissions

Howkingtech's own production activities produce relatively low emissions. In terms of exhaust, the assembly and testing center in Shenzhen will produce an insignificant amount of exhaust from soldering tin during simple assembly and welding of the IoT antenna, which is finally collected and treated by the ventilation pipe before discharging. In terms of sewage, the sewage discharged by the Company includes domestic sewage only, which is discharged into the sewage pipe network and then treated uniformly by the park where the Company is located. The Company outsources the production of telecommunication equipment to OEM manufacturers, therefore, it has little impact on the environment.

In terms of solid waste, only an insignificant amount of waste is generated during the Company's office operation, and non-hazardous waste mainly includes office waste, domestic waste, etc., which are collected according to the waste classification principle of the place of operation and then delivered to the city's sanitation department for disposal. Hazardous waste mainly includes waste lamp tubes, waste ink boxes, etc., which are collected and disposed of by the park property company or equipment provider.

The Company strictly complies with various laws and regulations such as the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), actively reduces various types of waste generated in its operation and effectively manages various types of waste to ensure proper disposal. During the Reporting Period, the Company did not violate the above-mentioned laws and regulations.

Table: Waste Generation in 2022

Indicator	Unit	2022
Total hazardous waste generation	kg	2.33
Hazardous waste generation intensity	kg/RMB million of revenue	0.007
Total non-hazardous waste generation[1]	kg	10.54
Non-hazardous waste generation intensity	kg/RMB million of revenue	0.033

1 Non-hazardous waste mainly includes domestic waste. According to the estimation of the total amount of domestic waste and the ordinary resident population of the two cities in the "Announcement on Environmental Prevention and Control of Solid Waste Pollution of Nanjing in 2021" (《2021年南京市固體廢物污染環境防治信息公告》) and the "Announcement on Environmental Prevention and Control of Solid Waste Pollution of Shenzhen in 2021"(《2021年深圳市固體廢物污染環境防治信息公告》), and taking into account the office hours, 0.5 kg/(person/day) is adopted as the Company's domestic waste estimation coefficient for the year.

Environmental, Social and Governance Report

The Company is not involved in the direct production of components, the greenhouse gas ("GHG") emissions are therefore mainly from the carbon dioxide emitted in the Company's daily operation and the use of vehicles. In particular, the two main sources of GHG emissions of the Company are the direct emissions from vehicle gasoline combustion and indirect emissions from the use of electricity. The Company actively responds to the call of the state for energy conservation and emission reduction, adheres to the concept of low-carbon and sustainable development, emphasizes the improvement of energy efficiency, and uses energy-saving equipment and measures to reduce the GHG emissions generated in the Company's daily operation.

Table: GHG Emissions in 2022

Indicator		Unit	2022
Scope 1:	Direct GHG emissions[1]	Tons of CO_2e	13.28
	Intensity of direct GHG emissions	Tons of CO_2e/RMB million of revenue	0.04
Scope 2:	Indirect GHG emissions[2]	Tons of CO_2e	144.84
	Intensity of indirect GHG emissions	Tons of CO_2e/RMB million of revenue	0.45
Total GHG emissions		Tons of CO_2e	158.12
Intensity of total GHG emissions		Tons of CO_2e/RMB million of revenue	0.49

1 Direct (scope 1) GHG emissions is calculated based on the IPCC Guidelines for National Greenhouse Gas Inventory 2006, 2019 Revised Edition (《IPCC2006年國家溫室氣體清單指南2019修訂版》) issued by the Intergovernmental Panel on Climate Change (IPCC).

2 Direct (scope 2) GHG emissions is calculated based on the Average Carbon Dioxide Emission Factors of China's Regional Power Grid in 2011 and 2012 (《2011年和2012年中國區域電網平均二氧化碳排放因子》) issued by the National Development and Reform Commission.

Environmental, Social and Governance Report

11.2 A2 Use of Resources

The energy consumption of the Company in its operational process mainly comprises electricity, gasoline and water resources. Since the Company is mainly engaged in the research and development of hardware and software, which do not involve in mass production activities, and outsources the production of hardware to OEM manufacturers, the Company does not use or consume a large number of packaging materials. In addition, the Company has low consumption of energy as it has small number of staffs and only uses gasoline energy during office hours and when using cars. The water source of the Company is municipal water supply, and it has never experienced any problems in sourcing water. In its daily operations, the Company strictly complies with relevant laws and regulations such as the Environment Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), and is committed to the protection of resources and the improvement of resource utilization efficiency, and actively practices the concept of green and sustainable development. During the Reporting Period, the Company did not violate the above-mentioned laws and regulations.

Table: Energy Consumption in 2022

Indicator	Unit	2022
Electricity purchased	kWh	236,449.39
Gasoline	Liter	6,019.54
Comprehensive energy consumption[1]	Tons of standard coal	35.48
Energy use intensity	Tons of standard coal/RMB million of revenue	0.11
Conversion of electricity for energy consumption	kWh	288,698.65
Conversion of electricity for energy consumption intensity	kWh/RMB million of revenue	891.14

1 The comprehensive energy consumption is calculated based on the General Principles for Calculation of the Comprehensive Energy Consumption (《綜合能耗計算通則》) (GB/T 2589-2020) issued by the State Administration for Market Regulation (國家市場監督管理總局) and the State Standardization Administration (國家標準化管理委員會).

Table: Water Resource Consumption in 2022

Indicator	Unit	2022
Total water consumption	Ton	1,767.17
Total water consumption intensity	Ton/RMB million of revenue	5.45

Table: Packing Materials Consumption in 2022

Indicator	Unit	2022
Plastic packaging	Ton	0.17
Carton packaging	Ton	3.26
Expanded polyethylene	Ton	1.00

Environmental, Social and Governance Report

11.3 A3 The Environment and Natural Resources

Since the Company is principally engaged in research and development and does not involve massive production activities, the possibility of substantial impact on the environment and natural resources in the course of daily operations is minimal. As the Company expands its scale and diversifies its business types, the Company has always been committed to integrating the concepts of environmental protection and natural resource protection into its daily operations, keeping close attention and due consideration to environmental and resource issues to avoid creating substantial impact on them.

The Company recognized the importance of complying with ecological environmental protection laws and regulations. In order to fulfill the responsibilities and obligations of ecological environmental protection in accordance with the laws, take actions to prevent and control environmental pollution and ensure the stable and up-to-standard discharge of pollutants, the Company has completed the discharge registration of fixed pollutants and accepted the inspection of ecological and environmental protection and public supervision according to laws.

固定污染源排污登记回执

登记编号：91440300MA5G8YD69C001W

排污单位名称：南京濠暻通讯科技有限公司深圳分公司

生产经营场所地址：深圳市宝安区福海街道和平社区蚝业路祥利工业园厂房A栋501

统一社会信用代码：91440300MA5G8YD69C

登记类型：☑首次 ☐延续 ☐变更

登记日期：2020年09月02日

有 效 期：2020年09月02日至2025年09月01日

Picture: Receipt of the discharge registration of fixed pollutants of the Company

In addition to complying with relevant environmental laws and regulations and properly protecting the natural environment, the Company also actively advocates the environmental concept of green and low carbon, which has been incorporated into the daily management and operation of the Company, and is committed to achieving the goal of environmental sustainable development. In 2022, the Company formulated relevant rules to regulate the conservation of water, electricity and paper, improved relevant reward and punishment mechanism, and called on employees to implement green office measures by sending internal notices, posting environmental protection signs and other specific means.

Environmental, Social and Governance Report

Picture: Poster for water conservation

Picture: Poster for electricity conservation

Picture: Sign for electricity conservation

Picture: Sign for paper conservation

In order to standardize the Company's own environmental behavior and process, and fulfill its corporate social responsibility to protect the environment, the Company's operating places all passed the ISO14001:2015 (Environmental Management System) certification to ensure that the raw materials, production processes, processing methods used by the Company for production and the use and post-use disposal of products complies with the requirements of environmental protection standards and regulations.

Environmental, Social and Governance Report

环境管理体系认证证书

深圳市物联微电子有限公司

证书编号:19522E38687R1S

统一社会信用代码:91440300594330452K

注册地址:深圳市南山区高新科技园北环大道北松坪山路1号源兴科技大厦5层南座509

经营地址:广东省深圳市南山区高新科技园北环大道北松坪山路1号源兴科技大厦5层南座509

管理体系符合标准:GB/T 24001-2016/ISO 14001:2015

证书覆盖范围:通讯系统软件的技术开发相关的环境管理活动

证书颁发日期:2022年04月25日　证书有效期至:2025年04月24日

注:证书颁发后,获证组织必须在证书有效期内按期接受监督审核,并经认证决定通过后此证书方可继续有效。

中国认可 国际互认 管理体系 MANAGEMENT SYSTEM CNAS C195-M

签发人:

证书有效性以右侧二维码扫描内容为准

北京坤标检验认证有限公司网址: http://www.bjkbrz.com

国家认监委证书查询网址:www.cnca.gov.cn

北京坤标检验认证有限公司

地址:北京市朝阳区望京中环南路甲2号24层B2703(邮编:100102)

电话:010-84631655 传真:010-84622396

副本

环境管理体系认证证书

经北京中安质环认证中心有限公司审核,确认

南京濠曝通讯科技有限公司

统一社会信用代码:9132011507589626XB

(注册地址:江苏省南京市江宁经济开发区秣周东路9号　邮编:211100)

环境管理体系符合:

GB/T 24001—2016/ISO 14001:2015

认证范围覆盖如下:

移动通信天线的设计、研发和生产及相关活动

地址:江苏省南京市江宁经济开发区秣周东路9号。

注册号: 02819E10653R1S

有效期:2022年11月18日至2025年11月11日

颁证日期:2022年11月18日

北京中安质环认证中心有限公司

(地址:北京市朝阳区东三环北路58号富顿中心1号楼22层　邮编:100022)

中国认可 国际互认 管理体系 MANAGEMENT SYSTEM CNAS C028-M

证书信息查询方式:

The website of inquiry certificate:

http://www.cnca.gov.cn

认证状态查询　联系方式查询

Pictures: Environmental management system certificates of the Company

11.4 A4 Climate Change

Addressing climate change is an objective need and internal requirement for the sustainable development of the world and China. We cannot live aside of its impact.

According to the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD), we have identified the potential real-time physical risks and transitional risks from climate change. Real-time physical risks may arise from extreme weather, such as storms and flood, which may have a potential financial impact on us. Storm and flood risks may result in direct damage to the assets of our offices and test and assembly centers, which could affect our operations. If suppliers experience such extreme weather conditions, we may face the indirect impact of supply chain disruptions.

The potential transitional risks may arise from technological transformation and the ever-changing customer preferences and needs. As a technology-driven company, we are faced with continuous upgrading and development in the technology of the products and services we provide. Emerging technologies (such as equipment and devices with higher energy efficiency) may increase our operating cost, or if we fail to adopt such emerging technologies or products, it may affect our competitiveness and ultimately affect the demand for our products and services.

In order to cope with the impact of climate change and extreme weather, the Company has actively established various business continuity plans (BCPs), which specify the work arrangement under severe weather or extreme conditions to reduce the potential injury to employees and the increase of insurance premiums; monitored changes in environmental, social and governance related regulatory requirements and market trends; and comprehensively evaluated the proportion of energy consumed in our operations and optimized procedures accordingly.

It is estimated that the extreme weather conditions, which are potential physical risks, and the emerging technologies, which are potential transitional risks, will have little impact on our operations after assessment. As of December 31, 2022, we have not experienced any operations or supply chain disruptions due to storms or flood.

Environmental, Social and Governance Report

12 B SOCIETY

12.1 B1 Employment

Howkingtech strictly abides by relevant laws and regulations such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and Employment Ordinance (Chapter 57 of the Laws of Hong Kong), and actively formulates internal management systems such as the Staff Manual (《員工手冊》) and Personnel Management Procedures (《人事管理流程》) to effectively protect and safeguard the legal rights and interests of employees. The Employee Manual and Personnel Management Procedures formulated by the Company comply with the labor laws applicable to Mainland China and Hong Kong, which are mainly designed to regulate work procedures such as recruitment and employment, salary payment, personnel reappointment and vacation management and other work processes. In case of dismissal or compensation arising therefrom, the Company will comply with local laws and regulations.

During the Reporting Period, there was no event relating to employment discrimination, harassment, bully, insults, child labor or forced labor, and the Company is not aware of any major non-compliance or violation of relevant laws and regulations in other aspects of employment.

12.1.1 Human Resource Management

Howkingtech adheres to the philosophy of diversity and equal opportunity and is committed to eliminating possible discrimination and prejudice due to skin color, gender, age, ethnicity, nationality, language, religious belief and physical condition, fostering an open and inclusive work environment. As of December 31, 2022, the Company had 75 full-time employees from different regions, of which 38.7% were women.

Table: Employment Information of the Company in 2022

Indicator		Unit	2022
Total number of employees		person	**75**
Number of employees by gender	Male	person	**46**
	Female	person	**29**
Number of employees by age	≤30	person	**20**
	31–39	person	**32**
	≥40	person	**23**
Number of employees by employees' rank	Senior management	person	**5**
	Middle management	person	**6**
	Ordinary employees	person	**64**
Number of employees by employment type	Full-time employees	person	**75**
	Part-time employees	person	**0**
Number of employees by region	Mainland China	person	**75**
	Hong Kong, Macau and Taiwan	person	**0**
	Overseas	person	**0**

As of December 31, 2022, the Company's employee turnover rate was as follows:

Table: Information on Company Employee Turnover Rate in 2022

Indicator		Unit	2022
Total employee turnover rate		%	**11.96**
Number of employees by gender	Male	%	**8.70**
	Female	%	**3.26**
Number of employees by age	≤30	%	**5.43**
	31–39	%	**2.18**
	≥40	%	**4.35**
Number of employees by region	Mainland China	%	**11.96**
	Hong Kong, Macau and Taiwan	%	**0**
	Overseas	%	**0**

12.1.2 Remuneration, Welfare and Other Benefits

Howkingtech has established a fair, reasonable and competitive remuneration system to attract and retain outstanding employees. Employee's remuneration consists of basic salary, performance and year-end bonus, in which the basic salary is comprehensively assessed and established by the Company based on job classification, job nature, market conditions and other elements, and the specific salary range will be finally determined according to the employee's knowledge and skills, practical experience and other conditions. Meanwhile, in order to motivate employees to make contributions, the Company provides salary increase opportunities for employees who pass the performance appraisal.

In addition to salary incentives, the Company also provides employees with rich and diversified welfare care:

- Insurance plan: the Company contributes to medical insurance, pension insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund for employees according to laws;

- Living allowance: the Company offers employees meal, transportation and communication allowances, which are paid together with wages;

- Holiday commemoration: the Company holds quarterly birthday parties for employees and organizes afternoon tea party during holidays such as Christmas;

- Group activities: the Company organizes annual group activities for employees, including outings or communal dining as appropriate;

- Additional bonus incentives: the Company attaches importance to scientific research achievements and talent recruitment, sets up talent recruitment awards and patent awards, and grants bonuses to employees who have made contributions.

Environmental, Social and Governance Report

12.1.3 Working Hours and Holidays

Howkingtech encourages employees to balance work and life, and sets working hours in accordance with local labor laws. The Company not only protects the basic rights of employees, ensures legal double breaks and public holidays, but also provides employees with paid leave, including sick leave, marriage leave, maternity leave, breastfeeding leave, bereavement leave, and work-related injury leave.

12.1.4 Career Promotion

Howkingtech attaches great importance to the promotion and development of employees and has clarified the promotion assessment process in its Personnel Management Process (《人事管理流程》). The Company conducts quarterly performance appraisals for employees every year, and provides position and salary promotion for employees with excellent overall appraisal results to motivate them to make continuous progress and grow with the Company. The specific process of employee promotion is as follows:

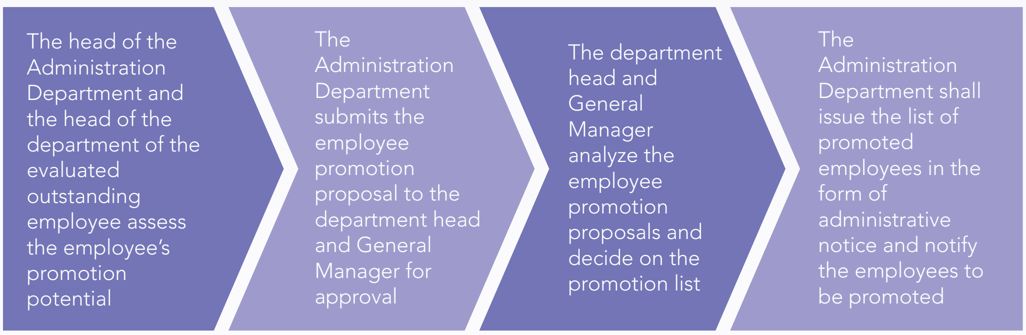


Figure: Employee promotion process

12.2 B2 Health and Safety

Howkingtech attaches great importance to the health and safety of its employees and strictly abides by the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), and the Regulations on Work Injury Insurance (《工傷保險條例》), and has established systems such as the Production Safety Management System (《安全生產管理制度》) to regulate the safety of production operations. Meanwhile, the Company provides employees with a variety of health and safety protection measures, including certification of ISO45001:2018 (Occupational Health and Safety Management System) and regular physical examinations for all employees every year, so as to fully protect their health.

For three consecutive years (including the Reporting Period), the Company has not had any violations of relevant laws and regulations, nor work-related injuries or work-related fatalities.

Environmental, Social and Governance Report

Pictures: The Company's Occupational Health and Safety Management System Certification

12.2.1 Safety Production

In order to actively promote the emergency resources investigation and management level for safety production, the Company has carried out the emergency resources investigation of production safety accident to identify safety risks and hazards in a timely manner. For the risks that may be caused by production equipment, the Company has formulated instruction specifications such as Safety Operation Procedures for UV Furnace Machine (《UV爐機安全操作規程》) and Safety Operation Procedures for High Frequency Welding Machine (《高頻焊機安全操作規程》) to avoid personal injury and property damage caused by improper operation. In order to improve the ability to deal with fire, electric shock and other emergencies, the Company has formulated plans such as Safety Production Accident Site Disposal Plan (《安全生產事故現場處置方案》) and Safety Production Emergency Plan (《安全生產應急預案》) to standardize the emergency handling measures, processes and contacts of internal emergency personnel in cases of various accidents.

During the Reporting Period, the Company organized production workshop staff to carry out fire safety training, introducing in detail the use of various common fire extinguishers, fire-filtering self-rescue breathing apparatus, fire hydrants and emergency escape methods.

Environmental, Social and Governance Report

12.2.2 Pandemic Prevention and Control

The Company has formulated a comprehensive pandemic prevention and control strategy, actively coordinated pandemic prevention and control with production and operation, fully ensuring the health and safety of employees. The Safety Production Emergency Plan (《安全生產應急預案》) specifies the procedures for handling epidemics (including mass epidemics such as "COVID-19" and "avian influenza"), including but not limited to the following:

- implement proactive preventive measures in accordance with the government's requirements on prevention;
- organize regular disinfection of project premises by housekeeping staff for different viruses and germs, and conduct professional disinfection and necessary isolation of workplaces of patients with confirmed or highly suspected illnesses, or of persons in close contact with the above-mentioned persons;
- procure disinfectants and drugs and provide adequate disinfection and protective supplies in office areas;
- make full use of multiple forms to disseminate scientific knowledge related to pandemic prevention;
- strengthen ventilation in all public areas of the buildings and improve hand washing facilities in public areas;
- strengthen the monitoring of entrances and exits to prevent patients with confirmed and highly suspected infectious diseases from entering the project sites;
- require employees to minimize unnecessary outings and avoid going to public places with heavy people flow to avoid cross-infection during outings.

Under the new developments of pandemic prevention and control in 2022, the Company also adjusted its response strategy timely and adopted the following protective measures according to the adjusted national pandemic prevention policy:

- arrange employees to work at home;
- suggest employees who need to travel for short distances to drive themselves and reimburse fuel costs to reduce the risk of employees being infected by taking public transportation.

12.3 B3 Development and Training

Howkingtech attaches importance to the establishment of staff training management and development system. Through diversified training modes such as induction training, management training, technical training, and project training, we meet different needs of employees at all levels and in all departments, and provide a competitive career development platform for all employees to facilitate their development and achieve sustainable development together with the Company. The Company has formulated the Personnel Management Process (《人事管理流程》) to regulate matters related to employee training and appraisal.

The Company will introduce its basic business as well as the rules and regulations to new employees to help them get integrated into the Company and familiarized with their positions as soon as possible. Specific departments and the administration department will jointly discuss and formulate employee training programs for in-service employees. After the training is completed, they will be assessed by various means such as written tests, practical operations, and teaching evaluation, etc. The appraisal performance will be one of the basis for future career position changes of employees.

During the Reporting Period, the Company organized several training sessions for employees of various levels and departments according to business types, such as training on key and core 5G technologies (5G RRU index testing, 5G O-RAN technology architecture, etc.), radio technologies (RADIO software function and architecture training, RF related knowledge, etc.) as well as production software and technologies (field programmable logic gate array FPGA development, etc.) for R&D department staff. We also provide production quality training and supplier quality training for production department personnel, and training for finance department personnel on the interpretation of international and Chinese domestic accounting standards, and training on income and financial instruments standards, in order to provide employees with knowledge and management skills and enhance their ability to perform their duties. Training on organizational management and governance was also provided to Directors and senior management, mainly covering the Listing Rules and guidelines issued by the Hong Kong Stock Exchange, as well as corporate ESG-related contents.

Picture: The Company's FPGA development training

Environmental, Social and Governance Report

In 2022, the rate of trained employees reached 100%, with an average of 6.79 training hours per employee. The number of training hours per employee by type is as follows:

Table: Training of the employees of the Company in 2022

Indicator		Unit	2022
Trained employee ratio		%	**100.00**
Trained employee ratio by employee's rank	Senior management	%	**100.00**
	Middle management	%	**100.00**
	Ordinary employee	%	**100.00**
Trained employee ratio by gender	Male employee	%	**100.00**
	Female employee	%	**100.00**
Average training hours per employee		hour	**6.79**
Trained hour per person by employee's rank	Senior management	hour	**4.40**
	Middle management	hour	**5.17**
	Ordinary employee	hour	**7.13**
Trained hour per person by employee's gender	Male employee	hour	**6.45**
	Female employee	hour	**7.34**

12.4 B4 Labor Standards

Howkingtech strictly complies with relevant laws and regulations, including the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Law on the Protection of Minors of the People's Republic of China (《中華人民共和國未成年人保護法》) and Employment Ordinance (Chapter 57 of the Laws of Hong Kong), and has adopted a series of internal control and compliance measures prohibiting the employment of child labor and forced labor.

The Company strictly prohibits the employment of any child labor and forced labor, and has clearly stated in the Employee Handbook (《員工手冊》) that those who are under the legal age are not allowed to become employees of the Company. During the recruitment process, the Company also requires applicants to provide true and accurate personal information for age and employment eligibility check. In order to standardize the separation management, the Company has specified the resignation procedures, and safeguarded the legal rights and interests of resigned employees in accordance with relevant laws and regulations. The Company does not support compulsory labor practices, and has established a bottom-up feedback channel to facilitate employees' complaints and reports on forced labor practices, so as to identify and correct the practices in a timely manner. During the Reporting Period, no incidents of violation have occurred, including child labor and forced labor.

The Company attaches importance to enhancing communication with employees, holds employee meetings regularly, effectively strengthens democratic participation and communication between employees and management, and protects employees' rights to freedom of assembly and association.

Picture: The Company's 2022 Annual Staff Meeting

12.5 B5 Supply Chain Management

Howkingtech attaches great importance to supply chain management and the relationship maintenance with its suppliers, and is committed to building a fair, honest, clean, win-win and sustainable supplier relationship. The Company puts the Procedures for Procurement Payment (《採購付款流程》) in place to standardize procurement and payment, improves the payment process, specifies the approval process and reasonably arranges the Company's funds, ensuring normal business operation. The Company's suppliers primarily consist of (i) suppliers of hardware components, (ii) OEM manufacturers, and (iii) software developers. The Company outsources the production of telecommunication equipment to OEM manufacturers and exercises strict quality control on such OEM manufacturers.

Environmental, Social and Governance Report

The Company has established a supplier management system to maintain a stable and reliable supplier team and provide reliable services and supplies for the enterprise's high-quality operation. The system requires the Company to evaluate the existing suppliers' qualification on a regular basis, and review the addition or removal of supplier in accordance with the process, and requires the Company to sign guarantee agreements with upstream and downstream units when entering into contracts with suppliers to ensure that they are not engaged in commercial activities that fall within the scope of sanctioned industries and activities. At the same time, the Company has established a management and accounting mechanism for procurement and payment operations, specifying the responsibilities and authorities of the procurement and finance departments in the mechanism to ensure compliance with the requirements for the processes of commodity procurement, manpower procurement and non-production commodity procurement. In response to market changes, the Company has also developed contingency measures for the availability of supplies during production to stabilize the supply of raw and auxiliary materials and minimize the risk of inadequate procurement.

The Company relies primarily on local suppliers to reduce the carbon footprint arising from transportation. The breakdown of suppliers by region during the Reporting Period is as follows.

Table: Suppliers of the Company in 2022

Indicator		Unit	2022
Number of suppliers by region	Total	Company	**135**
	Eastern China	Company	**35**
	Southern China	Company	**88**
	Central China	Company	**1**
	Northern China	Company	**1**
	Northwestern China	Company	**4**
	Southwestern China	Company	**6**
	Northeastern China	Company	**0**
	Hong Kong, Macao and Taiwan	Company	**0**
	Overseas regions	Company	**0**

12.5.1 Suppliers Selection and Acceptance

- The Company identifies procurement demands, conducts preliminary review on suppliers' qualification based on supplier information, and provides the new suppliers' qualification documents for the reviewing personnel of the procurement department for validation, and the approved suppliers will enter the new supplier application process;

- New suppliers are required to collate relevant qualification documents and fill in the Qualified Supplier Evaluation Form (《合格供應商評估表》), which will be subject to approval by the head of the procurement department and the quality department, and only those qualified can be accepted and approved as qualified suppliers. The accepted units' source, qualification documents and Qualified Supplier Approval Form should be submitted when being accepted.

12.5.2 Management and Evaluation on Suppliers

- The procurement department conducts an annual supplier evaluation based on the supplier evaluation criteria, and a qualified supplier catalogue will be consolidated subject to the approval by the quality department, the procurement department and the general manager;

- The procurement department will confirm whether any supplier is to be removed based on the scoring results, and if so, notify the supplier and terminate the business cooperation upon its confirmation. If a supplier who is removed in the annual assessment needs to re-establish a business cooperation, it shall submit an application for such re-establishment, and its supply qualification will be re-established subject to the review and approval by the responsible person of the procurement department and the R&D department;

- In assessing suppliers, supplier candidates who are deemed not to meet more than two of the following key criteria will be removed:

  (i) samples found to be satisfactory

  (ii) having a dedicated quality control department

  (iii) reasonable price levels

  (iv) adequate supply capacity

Environmental, Social and Governance Report

12.5.3 Promotion of Environmental-friendly Products and Services

The Company is committed to incorporating environmental-friendly principles into its supplier selection system, and prioritizes suppliers who use environmental-friendly products and services to minimize the impact on the environment. For example, the Company developed the Howkingtech Technical Standards for Environmentally Hazardous Substances (《濠暻科技環境有害物質技術標準》), which prohibits or restricts suppliers from using the raw materials set out therein, and requires suppliers to establish quality management systems in accordance with ISO9001 to meet standardized compliance requirements.

12.6 B6 Product Responsibilities

12.6.1 Introduction to Products and Services

We mainly provide customized data transmission and processing services to customers in manufacturing, municipal services and other industries in the PRC, and research, develop and sell telecommunication equipment. Leveraging on the Company's professional and experienced technical team to provide support, we are able to provide supporting services, such as telecommunication equipment maintenance services and telecommunication consulting services to our customers, to extend the lifetime of products and parts, and customers may resume their operation at a faster pace with relatively lower costs.

Catering to customers' specific needs, we also provide our customers with either integrated services or software services. For integrated services, we primarily embed telecommunication equipment for data transmission and deploy centralized data platform, namely Universal IoT Platform, for data processing. For software services, we primarily provide customized centralized data platform for data processing according to our customers' demands.

We are in strictly compliance with laws and regulations such as the Law of the People's Republic of China on Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and the Trade Descriptions Ordinance (Cap. 362), and offer guidelines and training to our staff to help them fully understand the Company's policies and compliance requirements. During the Reporting Period, there was no breach of relevant regulations on advertisement labeling.

Environmental, Social and Governance Report

12.6.2 Product Quality Assurance

Hardware products sold by Howkingtech were all manufactured by suppliers, with only their assembly process taking place in our Shenzhen workshop. To ensure our product quality, we adhered to national and industrial requirements in establishing our quality management system, and developed a set of comprehensive internal technical standards and requirements. The Company has obtained the ISO9001:2015 (Quality Management System) certification, which regulates the standards of product and service management. Meanwhile, we also require our suppliers to establish quality management systems in accordance with the latest version of ISO9001 standards and set quality management targets for their products. Where any abnormalities are found in raw materials, parts or product quality, these raw materials, parts or products will be dealt with in accordance with the unqualified product management procedures.


中安认证
质量管理体系认证证书
经北京中安质环认证中心有限公司审核，确认
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统一社会信用代码：9132011507589626XB
（注册地址：江苏省南京市江宁经济技术开发区秣周东路9号
邮编：211111）
质量管理体系符合：
GB/T 19001—2016/ISO 9001:2015
本质量管理体系覆盖下列产品：
移动通信天线的设计、研发和服务
地址：江苏省南京市江宁经济技术开发区秣周东路9号。
注册号：02815Q11452R2S
有效期:2021年12月10日至2024年12月08日
颁证日期：2021年12月10日
北京中安质环认证中心有限公司
（原8·1质量体系认证中心）
（地址：北京市朝阳区东三环南路58号富顿中心1号楼22层　邮编：100022）
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证书编号:19522Q38686R1S
统一社会信用代码:91440300594330452K
注册地址:深圳市南山区高新科技园北环大道北松坪山路1号源兴科技大厦5层南座509
经营地址:广东省深圳市南山区高新科技园北环大道北松坪山路1号源兴科技大厦5层南座509
管理体系符合标准:GB/T 19001-2016/ISO 9001:2015
证书覆盖范围:通讯系统软件的技术开发
证书颁发日期:2022年04月25日　证书有效期至:2025年04月24日
注:证书颁发后，获证组织必须在证书有效期内按期接受监督审核，并经认证决定通过后此证书方可继续有效。
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北京坤标检验认证有限公司
地址：北京市朝阳区望京中环南路甲2号24层B2703（邮编：100102）
电话：010-84631655　传真：010-84622396

Picture: Howkingtech's quality management system certificates

To standardize the product quality inspection process and product recall procedures, the Company has developed the Management Measures for Product Recall (《產品召回管理辦法》) which specifies particular specifications such as the triggering timing of product recall, product recall procedures, recalled product handling and remedial work, and requires to inform the relevant parties of the information regarding unqualified products in a timely manner, and bring the products concerned under control promptly and completely on the basis of the implementation of product recalls to avoid or minimize losses to customers.

During the Reporting Period, there was no circumstance where the Company had to recall products due to issues that could affect their functionality, cause harm to consumers or expose the Company to legal risks.

Environmental, Social and Governance Report

12.6.3 Customer Feedback

Howkingtech attaches great importance to customer service experience. We have established a smooth and fast pre-sales and after-sales service system from raw materials to the production process, providing customers with a variety of communication channels such as official website enquiry, email and telephone consultation to facilitate the use of our services.

During the Reporting Period, there was no complaint received by the Company in relation to products or services.

12.6.4 Innovation and R&D

Strong R&D and innovation capabilities are the foundations underpinning the sustainable development of Howkingtech. The Company successfully developed our proprietary 5G telecommunication equipment with certain self-developed core module and software embedded, such as front end module, digital front-end algorithm and protocol stack. In order to standardize the Company's research and development process, reduce R&D risks and improve the Company's innovation and competitiveness, the Company has developed the R&D Management Process, which sets out detailed requirements on the initiation, planning, development, verification/release/acceptance and monitoring of research-based projects, product-based projects and project delivery.

As of December 31, 2022, the Company has applied for 183 patents, including 63 invention patents and 10 utility model patents, both are pending approval, and was granted 17 invention patent authorizations, 91 utility model authorizations and 2 design authorizations; it obtained 80 software copyrights and 1 international PCT. During the Reporting Period, the Company had additional 1 invention patent authorization, 6 utility model authorizations and 2 software copyrights.

12.6.5 Intellectual Property Protection

The Company strictly complies with laws and regulations such as the Patent Law of the People's Republic of China and the Copyright Law of the People's Republic of China, and has formulated the Intellectual Property Management System, in a bid to strengthen the Company's intellectual property protection, standardize its intellectual property management work, encourage staff to proactively participate in invention and creation, and facilitate promotion and application of scientific and technological achievements.

To ensure the orderly implementation of managing intellectual property rights and R&D files, the Company follows the principles of unified management, work division and cooperation and standardization, and has set up an administrative department responsible for the relevant management. Meanwhile, when outsourcing production or conducting business, we sign confidentiality agreements with suppliers to avoid leakage of information in relation to all intellectual property rights such as internal R&D projects, design drawings and professional technologies.

During the Reporting Period, the Company did not have any disputes or cases involving infringement, content plagiarism and other intellectual property rights.

12.6.6 Information Security and Privacy Protection

To protect the Company's commercial secrets and legitimate rights and interests, and ensure that the Company's scientific and technological development, technological innovation, intellectual property rights, marketing resources and other commercial or technical secrets belonging to the Company are not subject to loss and infringement, Howkingtech developed the Information Confidentiality System (《信息保密制度》) with specific provisions made for aspects from the Company's business to the staff's skills.

In terms of the Company's operations, provisions have been made for the protection of the Company's operation management information, marketing information, contracts, agreements and legal relationship information. In terms of staff, confidentiality disciplines are in place for them, and relevant personnel are required to sign the Confidentiality Agreement (《保密協議》) upon joining the Company, and a disciplinary and punishment system relating to the Company's information security was also stipulated in the Staff Manual to ensure the security of the Company's R&D and operational information. Where an employee discloses the Company's secret or proprietary information, the Company will take different levels of disciplinary action such as written warning, serious written warning and termination of service relationship depending on the severity of the breach.

The Company formulated the Data Backup and Disaster Recovery Management System (《數據備份與災難恢復管理制度》) to standardize the establishment of the Company's important data backup list, the backup responsibility, backup inspection and the recovery after system damage, and to reasonably prevent risks in the use of computers and information system. The system stipulates that the R&D department is the management function of the Company's information backup, which is responsible for the management and coordination of all important information backup of the Company. The department head should provide the R&D department with the backup of the important data or the latest list of backup data of the department on a regular basis. Disaster recovery of the Company's hardware is mainly carried out by the R&D department, which is responsible for investigating the causes, determining the accountability and applying for procurement; and disaster recovery of the Company's software is mainly carried out by the person in charge of system management through various backup media kept before the disaster or by other information systems, and based on the backup marks for purposeful recovery. To prevent hardware and software disasters, the Company conducts risk assessment and data recovery exercise annually.

The Company attaches great importance to the protection of customer information and privacy, strictly complies with laws and regulations including the Network Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), the Personal Information Security Specification (《個人信息安全規範》) and the Personal Data (Privacy) Ordinance (Cap. 486), and takes various measures to protect customer information, ensuring that customer data are treated in a safe and reliable manner. The policy and standard procedures for the management of customers' private information obtained as a result of the conduct of business are clearly set out in the Information Privacy System.

Environmental, Social and Governance Report

With respect to the customer data collected by the Company in the course of project execution, confidentiality clauses must be specified in the contract, and the data must be received and sent with encryption before transmission. Upon completion of the project, all irrelevant data will be deleted in a timely manner, except for the project results data, which will be kept in a safe place, and the leakage of data is strictly prohibited. In addition, the Company conducts regular security assessments and network maintenance to ensure the confidentiality of customer data.

During the Reporting Period, the Company did not experience any leakage of customer privacy.

12.7 B7 Anti-corruption

Howkingtech strictly abides by the Anti-unfair Competition Law of the People's Republic of China (《中華人民共和國反不當競爭法》), the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Interim Provisions on Prohibition of Commercial Bribery (《關於禁止商業賄賂的暫行規定》), Prevention of Bribery Ordinance (《防止賄賂條例》) and other laws and regulations, and has fomulated internal administration system such as the Staff Manual, the Management System for Antifraud, Anti-money Laundering and Anti-bribery (《反舞弊、反洗錢、反賄賂管理制度》) and the Misconduct Reporting Mechanism and Handling Measures (《不當行為舉報機制與處理辦法》) to regulate the employees' behaviors.

The Company has set up a special complaint and report channel and has dedicated internal audit staff for illegal or undisciplined behaviors of its employees or the units concerned, and deal with violation of laws and disciplines by a complaint, report and investigation mechanism. During the Reporting Period, the Company did not have any proceedings relating to bribery, fraud and money laundering.

12.7.1 Antifraud

The Company continuously improves the system in connection with the antifraud management, with the aim to enhance the Company's governance and internal control, regulate the staff's profession conduct, safeguard legitimate rights and interests of the Company and its Shareholders and ensure the achievement of the Company's business objectives and its sustainable, stable and healthy development.

The Board of the Company is responsible for supervising the management in setting up a company-wide antifraud culture environment and a sound internal control system comprising fraud prevention. The management of the Company is responsible for establishing, improving and effectively implementing internal controls and taking appropriate and effective remedial measures against fraud. The heads of subsidiaries and departments are responsible for dealing with fraud occurred in their own units and departments.

Environmental, Social and Governance Report

The Company's antifraud management process is as follows:

(i) employees and social parties with whom the Company has direct or indirect business relationships report complaints of fraud to the Company's internal audit department through various channels such as reporting hotline, email, letter and interview;

(ii) the internal audit department receives and registers the complaint report, and the investigation team investigates the fraud and forms a written report on the investigation results and handling opinions and submits it to the Audit Committee and the Board;

(iii) upon completion of the antifraud case investigation, the internal audit department will put forward its opinions on handling or accountability for those that do constitute fraud and submit them to the Board for approval. Where economic losses are caused to the Company, compensation should be made by the person liable. Opinions on the handling of major fraud cases or opinions on the investigation of accountability will be decided by the Audit Committee;

(iv) the internal audit department provides feedback to the informer on the results of the investigation. For matters not to be filed for investigation, the internal audit department provides feedback to the informer on the results and the reasons within 10 working days; for matters to be filed for investigation, the internal audit department provides feedback on the results of the investigation within three months. If the reported matter is proved to be true and the Company's losses are thereby recovered, the informer will be rewarded as appropriate;

(v) employees who are proved to have committed fraud will be imposed corresponding penalty by the Company in accordance with relevant regulations; and in the event of violation of laws, such fraud will be passed to the judicial organs for handling in accordance with the laws.

12.7.2 Anti-money laundering

The Company follows the "risk-based" and "prudent and balanced" anti-money laundering work principles, strictly complies with laws and regulations such as the Anti-money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Provisions on Anti-money Laundering of Financial Institutions (《金融機構反洗錢規定》), the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (《打擊洗錢及恐怖分子資金籌集條例》), as well as the relevant regulations of the People's Bank of China, the China Securities Regulatory Commission and the Hong Kong Monetary Authority, and has formulated anti-money laundering management measures, requiring all departments, business lines and branches of the Company to effectively implement anti-money laundering in their daily business operations.

The Company's anti-laundering management measures requires all departments, business lines and branches not only to conduct a money laundering risk assessment in a systemic and comprehensive manner in combination with customer types on business, services, products and channels when conducting business in China, but also to observe laws and regulations with respect to anti-money laundering in countries (regions) where they operate when conducting business overseas, and to take reference to relevant requirements of the implementation of such measures within the scope permitted by the laws and regulations of such countries (regions).

Environmental, Social and Governance Report

The Board of the Company is responsible for the effective implementation of the internal control system against money laundering and has authorized the anti-money laundering leading team to perform the Company's anti-money laundering duties. At the same time, the Company has established the "Three Defenses" anti-money laundering management structure to require all staff to join hand in preventing money laundering and terrorist financing risks faced by the Company during the daily business course:

(i) the first defense (business departments): the departments of the Company with primary responsibilities for performing the obligation of identifying customer identity and monitoring suspicious transaction activities; responsible for prudent verification of customer identity data and the obligations of identifying customer identity and identifying and reporting major and suspicious transactions;

(ii) the second defense (law department/external law advisor): responsible for interpreting relevant anti-money laundering laws and regulations, taking the lead in the establishment and revision of the Company's anti-money laundering system and providing advices to the first defense in carrying out anti-money laundering;

(iii) the third defense (internal audit department): to check the effective implementation of each anti-money laundering control measure by various business functions through carrying out audit on the anti-money laundering efforts of the first defense.

Figure: the Company's "Three Defenses" against money laundering

12.7.3 Anti-bribery

The Company implements a standard of integrity for all of its business activities, and any form of corruption and bribery is strictly prohibited and those involved will be dealt with in accordance with the laws and regulations. The Company strictly prohibits the offering, accepting and soliciting of bribes, gifts, entertainments or other forms of practices designed to influence or likely to influence the Company's relevant business decisions to obtain an unusual or improper advantage. The Company also complies with overseas laws and regulations, including the United States Foreign Corrupt Practices Act, which prohibits the offering of bribes to and soliciting of bribes from local governments overseas.

By establishing the business philosophy with a core of "law-abiding and honesty, high quality service", and combining with the Company's actual situation, the Company formulated anti-corruption management measures, strengthened the supervision and management on key segments and important positions where corruption was frequent and highly likely to occur to ensure the commitment system for prevention of commercial bribery in governance, guided the Company's management personnel to act in accordance with the laws, and resisted negative and corrupt behaviors, such as disregarding moral principles in pursuit of profit, benefiting oneself at the expense of public interests, failing on complying with commitments, and deception and fraud, thereby establishing a good image of the Company. The Company's anti-corruption management measures also provide for the implementation of the commitment system for prevention of commercial bribery by key segments and important positions. Individuals at important positions and units or individuals with business dealings shall sign the Commitment to Prevent Commercial Bribery (《預防商業賄賂承諾書》) with the Company.

The Company's internal audit department is the department for supervising and managing the commitment system for prevention of commercial bribery, responsible for timely identifying the signs of commercial bribery, studying the countermeasures and measures for the prevention of commercial bribery. For the personnel of units with transactions in economic activities who refuse to perform the Commitment (《承諾書》), their accountability will be determined in accordance with relevant regulations; and those who constitute commercial bribery (offering bribery) crimes will be passed to the judicial organs to investigate the criminal liability.

The Company continuously conducts training related to anti-corruption and integrity building, which is organized and implemented by the administration department. During the Reporting Period, the Company has organized totally one anti-corruption training covering all directors and employees.

Environmental, Social and Governance Report

12.8 B8 Community Investment

Howkingtech is committed to building a caring and harmonious relationship with the communities where our business is operated, combining the industry and our own strengths to contribute to the communities with responsibility and charity, and to work together to create a positive environment for social good. As a technological innovation-based enterprise, the Company cares about equity in education and values the role of education and knowledge in the technology development and the social progress.

In 2022, the Company donated RMB100,000 to the Match Sticks Organization's (火柴公益) project to provide supports to rural teachers and the growth of children and to improve education in villages as a contribution to equal access to education. In the future, the Company will continue to fulfill its social responsibilities, explore and expand the scope of investments in communities, so as to promote the sustainable development of the social environment.

Picture: Howkingtech's Match Sticks Organization donation certificate

Environmental, Social and Governance Report

TABLE OF ENVIRONMENTAL AND SOCIAL PERFORMANCE

Indicator Category	Performance Indicator	Unit	2022
Environmental Performance	Total hazardous waste produced	kg	**2.33**
	Total non-hazardous waste produced	kg	**10.54**
	Total greenhouse gas emissions (Scope 1, Scope 2)	tons of CO_2e	**158.12**
	Comprehensive energy consumption	tons of standard coal	**35.48**
	Total water consumption	ton	**1,767.17**
	Plastic packaging	ton	**0.17**
	Carton packaging	ton	**3.26**
	Expanded polyethylene	ton	**1.00**
Social Performance	Total employees	person	**75**
	Total employee turnover rate	%	**11.96**
	Percentage of employees trained	%	**100**
	Average training hours per employee	hour	**6.79**
	Fatality as a result of work-related injuries (in recent three years)	person	**0**
	Total suppliers	company	**135**

Environmental, Social and Governance Report

ESG INDICATOR INDEX

Section of the Report	Environmental, Social and Governance Reporting Guide Index	Contribution to SDGs
About this Report	/	/
Scope of the Report	/	/
Standard of the Report	/	/
Data Sources and Reliability Description	/	/
The Board Statement	/	/
Responses to the ESG Reporting Principles of the Stock Exchange	/	/
ESG Governance	/	/
Active Support for the Sustainable Development Goals	/	/
Stakeholders Communication	/	/
Analysis of Material Issues	/	/
A Environmental Responsibility		
A1 Emissions	A1.1, A1.2, A1.3, A1.4, A1.5, A1.6	13 CLIMATE ACTION
A2 Use of Resources	A2.1, A2.2, A2.3, A2.4, A2.5	13 CLIMATE ACTION
A3 The Environment and Natural Resources	A3.1	12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
A4 Climate Change	A4.1	13 CLIMATE ACTION
B Society		
B1 Employment	B1.1, B1.2	3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
B2 Health and Safety	B2.1, B2.2, B2.3	3 GOOD HEALTH AND WELL-BEING
B3 Development and Training	B3.1, B3.2	4 QUALITY EDUCATION; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
B4 Labor Standards	B4.1, B4.2	8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
B5 Supply Chain Management	B5.1, B5.2, B5.3, B5.4	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
B6 Product Responsibilities	B6.1, B6.2, B6.3, B6.4	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
B7 Anti-corruption	B7.1, B7.2, B7.3	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
B8 Community Investment	B8.1, B8.2	4 QUALITY EDUCATION; 10 REDUCED INEQUALITIES

Corporate Governance Report

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2022.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintenance of good corporate governance practices and procedures. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders. The Company's corporate governance practices are based on the principles and code provisions as set out in part 2 of the CG Code.

Pursuant to code provision C.2.1 of part 2 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Dr. Chen Ping currently performs these two roles concurrently.

The Board believes that vesting the roles of both the chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group for more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority within the Group will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. The Board will from time to time review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company to ensure appropriate and timely arrangements are in place to meet changing circumstances.

Save for the deviation from code provision C.2.1 of part 2 of the CG Code as described above, the Company had complied with all applicable code provisions set out in part 2 of the CG Code during the period from the Listing Date and up to December 31, 2022.

CULTURE

With the corporate culture "Not to transform the world, but to cultivate an improved way of living", the Company is committed to assist customers to realize and optimize their digitalizations.

THE BOARD

Composition of the Board

The Board currently consists of seven Directors comprising four executive Directors, namely Dr. Chen Ping (chairman), Ms. Wang Zheshi, Mr. Feng Yijing and Mr. Wang Jun and three independent non-executive directors, namely Mr. Gu Jiong, Mr. Fong Wo, Felix and Mr. Yang Hai.

Corporate Governance Report

Responsibilities and Function

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The functions and duties of the Board include, but are not limited to, convening the general meetings, reporting on the performance of the Board's work at the general meetings, implementing the resolutions passed at the general meetings, determining business and investment plans, formulating annual financial budget and final accounts, formulating the Company's proposals for profit distributions, and formulating proposals for increase or reduction of capital as well as exercising other powers, functions and duties as conformed by the Articles of Association.

The Board has assigned the powers and responsibilities of the Group's daily operations, management and administration to the senior management of the Company. The Board regularly reviews the functions and powers delegated to ensure that the assignments are still appropriate. To oversee specific aspects of the Company's affairs, the Board has established three board committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has assigned responsibilities to the Board committees in accordance with their respective scopes of powers and functions.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision C.2.1 of Part 2 of the CG Code, the roles of the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Dr. Chen Ping currently performs these two roles concurrently.

The Board believes that vesting the roles of both the chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group for more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority within the Group will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. The Board will from time to time review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company to ensure appropriate and timely arrangements are in place to meet changing circumstances.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the period from the Listing date and up to December 31, 2022, the Company had three independent non-executive Directors, in compliance with the Rules 3.10(1) and 3.10(2) of the Listing Rules, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors accounts for more than one-third of the number of the Board members.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision B.2.2 of part 2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The term of appointment of non-executive Directors and independent non-executive Directors is for a term of three years.

Corporate Governance Report

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association.

In accordance with Article 108 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Accordingly, Dr. Chen Ping, Ms. Wang Zheshi and Mr. Feng Yijing shall be retired from office by rotation at the 2023 AGM, and being eligible, offer themselves for re-election.

COMPLIANCE WITH MODEL CODE REGARDING SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, which applies to all Directors and relevant employees of the Company who are likely to possess inside information in relation to the Company or its securities due to his/her office or employment.

The Company has made specific enquiries with each Director, and each of them confirmed that he/she had complied with all required standards under the Model Code during the period from the Listing Date and up to December 31, 2022.

TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed director shall be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the Listing Rules, relevant laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a director.

According to records provided by the Directors, a summary of training received by the Directors during the Reporting Period is as follows:

Name of Directors	Attending training session	Reading regulatory materials
Executive Directors		
Dr. Chen Ping	✓	✓
Ms. Wang Zheshi	✓	✓
Mr. Feng Yijing	✓	✓
Mr. Wang Jun	✓	✓
Independent Non-executive Directors		
Mr. Gu Jiong	✓	✓
Mr. Fong Wo, Felix	✓	✓
Mr. Yang Hai	✓	✓

Corporate Governance Report

DIRECTORS' RESPONSIBILITY ON FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the Reporting Period.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the financial position of the Group and relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

BOARD MEETINGS, BOARD COMMITTEES MEETINGS AND GENERAL MEETINGS

No Board meeting, Board committees meeting or general meeting were held by the Company during the period from the Listing Date and up to December 31, 2022 as the Shares were only listed on the Main Board of the Stock Exchange on December 12, 2022. Subsequent to the Reporting Period and up to the Latest Practicable Date, (i) one Board meeting was held and approved, among others, the annual results and report for the Reporting Period; (ii) one Audit Committee meeting was held and reviewed, among others, the annual results and report for the Reporting Period and the internal control and risk management systems; (iii) one Nomination Committee meeting was held and assessed the independence of the independent non-executive Directors, considered the re-election of Directors and reviewed the structure, size and composition of the Board; and (iv) one Remuneration Committee meeting was held and reviewed the remuneration packages of the executive Directors and senior management and remuneration of the independent non-executive Directors. All Directors and members of the Board committees attended the aforementioned meetings respectively.

Going forward, the Board will meet regularly and Board meetings will be held at least four times a year at approximately quarterly intervals. Notices of regular Board meetings are served to all of the Directors at least 14 days before the meetings. For other Board and Board committee meetings, reasonable notices were generally given. Minutes of meetings are kept by the company secretary with copies circulated to all Directors or Board committee members for information and records within a reasonable time after the date of the meeting. Directors who have conflicts of interest in a resolution are required to abstain from voting.

BOARD COMMITTEES

The Company has established three Board committees in accordance with the relevant laws and regulations and the corporate governance practice under the Listing Rules, including the Audit Committee, the Remuneration Committee and the Nomination Committee.

Audit Committee

The Audit Committee was established by the Company pursuant to a resolution passed in a meeting of the Board held on November 11, 2022 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of the CG Code. The primary duties of the Audit Committee are to provide an independent view of the effectiveness of the Group's financial reporting, risk management and internal control systems, oversee the audit process, develop and review policies and perform other duties and responsibilities as assigned by the Board. The members of the Audit Committee are Mr. Gu Jiong, Mr. Fong Wo, Felix and Mr. Yang Hai, all of whom are independent non-executive Directors. Mr. Gu Jiong is the chairman of the Audit Committee.

The Audit Committee has discussed with the external auditor of the Company, Ernst & Young, and reviewed the annual financial results and report, major internal audit issues, re-appointment of external auditors, and the effectiveness of the risk management and internal control systems of the Group.

The Audit Committee has reviewed the remuneration of the auditor for the year ended December 31, 2022 and has recommended the Board to re-appoint Ernst & Young as the auditor of the Company for the year ending December 31, 2023, subject to approval by the Shareholders at the 2023 AGM.

Remuneration Committee

The Remuneration Committee was established by the Company pursuant to a resolution passed in a meeting of the Board held on November 11, 2022 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph E.1 of the CG Code. The primary duties of the Remuneration Committee are to (i) establish, review and make recommendations to the Directors on the Group's policy and structure concerning remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration; (ii) determine the terms of the specific remuneration package of each executive Director and senior management; (iii) review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; and (iv) review and/or approve matters relating to the Share Option Scheme. The members of the remuneration committee are Mr. Fong Wo, Felix, Mr. Yang Hai and Mr. Feng Yijing. Mr. Fong Wo, Felix is the chairman of the Remuneration Committee.

Pursuant to the code provision E.1.5 of part 2 of the CG Code, the following table sets forth the remuneration of the members of senior management categorized by remuneration group for the year ended December 31, 2022:

Band	Number of individuals
Nil to RMB500,000	3
RMB500,001 to RMB1,000,000	5

Further details of the Directors' emoluments and the top five highest paid employees required to be disclosed under Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

Regular reviews are conducted on Directors' remuneration package with reference to companies with comparable business or scale and appropriate adjustments are proposed.

The Remuneration Committee has reviewed and made recommendations to the Board on the overall remuneration policy and structure for Directors and senior management and reviewed the remuneration of Directors and senior management and other matters for the year ended December 31, 2022.

Corporate Governance Report

Nomination Committee

The Nomination Committee was established by the Company pursuant to a resolution passed in a meeting of the Board held on November 11, 2022 with written terms of reference in compliance with paragraph B.3 of the CG Code. The primary duties of the Nomination Committee are to (i) review the structure, size and composition of the Board on a regular basis and make recommendations regarding any proposed changes to its composition; (ii) identify, select or make recommendations to the Board on the selection of nominees for directorship; (iii) ensure the diversity of the Board; (iv) assess the independence of the independent non-executive Directors; and (v) make recommendations to the Board on relevant matters relating to the appointment, re-appointment, removal and succession of the Directors. The members of the Nomination Committee are Dr. Chen Ping, Mr. Fong Wo, Felix and Mr. Gu Jiong. Dr. Chen Ping is the chairman of the Nomination Committee.

Nomination Policy

The Company has established a nomination policy which sets out the selection criteria and nomination procedures for the appointment of Directors. The selection criteria used as reference by the Nomination Committee in assessing the suitability of a proposed candidate:

(1) character and integrity;

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

(3) accomplishment and experience business from time to time conducted, engaged in or invested in by any member of the Group;

(4) commitment in respect of available time and relevant interest;

(5) requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules;

(6) the board diversity policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and

(7) such other perspectives appropriate to the Company's business.

The nomination procedure is as follows:

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

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

3. 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).

4. The Nomination Committee shall then recommend to appoint the appropriate candidate for directorship. The Board shall have the ultimate responsibility for selection and appointment of Directors.

5. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company pursuant to its constitutional documents, the Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

The Nomination Committee has reviewed the board diversity policy, the structure, size and composition of the Board, assessed the independence of independent non-executive Directors, considered the director nomination policy and made recommendation to the Board on the re-election of the retiring Directors and the appointment of new Director.

Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of skills, experience and diversity perspectives of the Board that are relevant to the business growth and support the execution of the business strategy. Pursuant to the board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board comprises seven members, including four executive Directors and three independent non-executive Directors. The Directors have a balanced mix of knowledge and experiences, including business management, strategic development, direct selling and social commerce, administration and management, finance, auditing and accounting experiences. The Board members also obtained degrees in various majors including art and design, engineering and auditing. Furthermore, the ages of the Directors range from 38 to 71 years old. The Company has also taken, and will continue to take steps to promote gender diversity at all levels of the Company, including but without limitation at the Board and senior management levels. In particular, one of the existing executive Directors of the Company is a female. The Company is also committed to adopting similar approach to promote diversity of the management (including but not limited to the senior management) of the Company to enhance the effectiveness of the corporate governance and will continue to apply the principle of appointments based on merits with reference to the board diversity policy as a whole.

Corporate Governance Report

The Nomination Committee is responsible for ensuring the diversity of the Board. The Nomination Committee reviews the board diversity policy (including gender balance) from time to time to ensure its continued effectiveness and the Company will disclose the implementation of the board diversity policy in the corporate governance report on an annual basis.

In view of the background of the existing Directors, the Nomination Committee is of the view that the composition of the Board is diversified.

The Company's gender diversity is also reflected in the workforce throughout the Group for the year ended December 31, 2022. As of the date of this annual report, 39% of the Group's total workforce (including senior management) are female. The Company targets to maintain a high level of female representation in the Group's workforce.

Board Independence Mechanism

The Company recognises that Board independence is pivotal in good corporate governance and Board effectiveness. The Board has established mechanisms to ensure independent views and input from any Director of the Company are conveyed to the Board for enhancing an objective and effective decision making.

The governance framework and the following mechanisms are reviewed annually by Audit Committee as delegated by the Board, to ensure their effectiveness:

1. Three out of the seven Directors are independent non-executive Directors, which meets the requirements of the Listing Rules that the Board must have at least three independent non-executive Directors and must appoint independent non-executive Directors representing at least one-third of the Board.

2. The Nomination Committee will assess the independence of a candidate who is nominated to be a new independent non-executive Director and the contribution to the diversity of the Board according to the board diversity policy adopted by the Company from time to time before appointment and also the continued independence of existing independent non-executive Directors and their time commitments annually. On an annual basis, all independent non-executive Directors are required to confirm in writing their compliance of independence requirements pursuant to Rule 3.13 of the Listing Rules, and to disclose the number and nature of offices held by them in public companies or organisations and other significant commitments.

3. External independent professional advice is available as and when required by individual Directors.

4. All Directors are encouraged to express freely their independent views and constructive challenges during the Board/Board Committee meetings.

5. No equity-based remuneration with performance-related elements will be granted to independent non-executive Directors.

6. A Director (including independent non-executive Director) who has a material interest in a contract, arrangement or other proposal shall not vote or be counted in the quorum on any Board resolution approving the same.

7. The chairperson of the Board meets with independent non-executive Directors annually without the presence of the executive Director and non-executive Directors.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTION

The Audit Committee is responsible for performing the duties on corporate governance functions set out below:

- develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- review and monitor the training and continuous professional development of Directors and senior management of the Company;
- review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and
- review the Company's compliance with the code and disclosure in the Corporate Governance Report of the Company.

The Audit Committee has reviewed the Company's corporate governance policies and practices, Directors' and senior management's training and continuing professional development, the Company's policies and practices in complying with legal and regulatory requirements, compliance with the Model Code, and the Company's compliance with the CG Code and its disclosure in the corporate governance report.

COMPANY SECRETARY

Ms. Zhang Xiao was appointed as the company secretary of the Company on January 25, 2022.

Ms. Zhang is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specializing in corporate services, and has over nine years of experience in the corporate secretarial field. Ms. Zhang has been admitted as an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in 2019.

Ms. Zhang obtained a Bachelor's Degree in Computer Science from The Chinese University of Hong Kong in 2010 and a Master's Degree in Corporate Governance from Hong Kong Metropolitan University in 2018.

Mr. Feng Yijing, the executive Director and chief financial officer of the Company, is the primary contact of Ms. Zhang at the Company. All Directors have access to the advice and services of Ms. Zhang to ensure that board procedures, and all applicable law, rules and regulations, are followed. During the Reporting Period, Ms. Zhang has taken more than 15 hours of relevant professional training according to Rule 3.29 of the Listing Rules.

Corporate Governance Report

AUDITOR'S REMUNERATION

The remuneration of the external auditor of the Company, Ernst & Young, in respect of audit and non-audit services provided to the Group for the Reporting Period are set out as below.

Type of services provided by the external auditor	Fees paid/ payable RMB'000
Audit services	
Annual report for the year ended December 31, 2022	1,800
Audit services in connection with the Listing	3,740
Non-audit services	
– services in connection with the Listing	
Internal control consultant	138
Tax consultant	186
Total	5,864

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control systems of the Company. The Board is committed to implementing an effective and sound risk management and internal control system to safeguard the interest of the shareholders and the assets of the Company.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. The Board has placed great emphasis on the establishment and improvement of the risk management and internal control systems and is responsible for evaluating and determining the degree of risk acceptable to the Company in achieving its strategic objectives. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee, who oversees management in the design, implementation and monitoring of the risk management and internal control systems.

The Board has conducted a review of the systems of risk management and internal control for the Reporting Period to ensure the effectiveness and adequacy of the systems. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of Company for the Reporting Period were effective and adequate.

Corporate Governance Report

Main features of the risk management and internal control systems

Highlights of the Group's internal control measures include the following:

- the Group has improved the existing internal control framework by adopting a set of internal control manual and policies, which cover corporate governance, risk management, operation and legal matters;
- the Directors have received trainings conducted by the Company's legal advisor as to Hong Kong laws on the continuing obligations, duties and responsibilities of directors of publicly listed companies under the applicable laws of Hong Kong;
- each of the Directors is aware of the fiduciary duties as a director which require, among other things, that he or she must act for the benefit and in the best interest of the Company and must not allow any conflict between his duties as a director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Company and Directors or their respective associates, any interested Director will be abstained from voting at the relevant meeting of the Board in respect of such transaction and shall not be counted in the quorum;
- the Group has adopted various policies to ensure compliance with the Listing Rules, including those in relation to risk management and information disclosure;
- the Group has appointed external legal advisor to advise on the compliance requirements of the Listing Rules and ensure the compliance with relevant regulatory requirements and applicable laws, where necessary;
- the Group will assess and monitor the implementation of the internal control manual and policies by the relevant departments and companies in the Group through regular audits and inspections;
- the Group will provide internal training to employees as appropriate in order to enable them to follow the internal control and corporate governance procedures;
- the Group will provide anti-corruption and anti-bribery compliance policies in the manual and implement a whistle-blower program under which the employees are encouraged to report instances of briberies directly to the finance department; and
- the Group will keep implementing updated policies to the extent necessary to ensure future compliance with applicable laws and regulations.

Corporate Governance Report

The process used to identify, evaluate and manage significant risks

In December 2022, the Company completed the Global Offering and was listed on the Main Board of the Stock Exchange. Through a series of governance measures with strict standards, the Company has formed a governance structure that meets the relevant regulatory requirements of the Stock Exchange and other relevant regulatory provisions.

The Company has set up the Audit Committee. The Board has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the risk management and internal control systems of the Group. The specific work of risk management and internal audit is mainly carried out by the internal audit team which reports directly to the Audit Committee. The internal audit team has a high degree of independence, and is responsible for providing an evaluation on the effectiveness of the Company's risk management and internal control systems. The internal audit team focuses on significant risks to gradually form the systematic and standardized audit model and procedures, and examines key issues in relation to the key internal controls, and provide its findings and recommendations to the Audit Committee. The internal audit team shall study on the rectification measures and strictly monitor the implementation results of rectification measures jointly with the business and other relevant departments, in order to ensure that the rectification measures can be effectively and thoroughly implemented.

The Company takes comprehensive risk management as an important task in its daily operation and has taken into account the regulatory requirements to formulate relevant disclosure policies as well. In 2022, in order to prevent risks and enhance internal control, and developed an interconnected organizational system with clear accountability and effective check and balance. The Company has, taking into account its specific conditions, established and improved internal control system. The Company's internal control establishment has basically covered all operating segments of the Company, including organisation, production operations, financial management, personnel management, and information disclosure, etc. The Company has formulated and implemented the Howkingtech Corporate Internal Control System, standardized the internal audit work, defined the internal audit team's main job responsibilities and work authority, and stipulated the internal control principles and the basic procedures for the implementation of internal control work. The Company has formulated and put into implementation the Howkingtech Corporate Risk Management Regulations to define risk management organization and duties at various levels and risk management processes of the Company. The Company developed an annual risk management and internal audit work plan in accordance with the internal control system and risk management system of the Company, and reviewed the effectiveness of its risk management and internal control execution. In addition, the Company also has formulated and put into implementation the Howkingtech Corporate Administrative Rules for Information Disclosure, which provides general guidelines for the directors, senior managers and employees of the Company to handle confidential information, defines the Company's information disclosure responsibility, strengthens the management of information disclosure affairs, standardizes the company's information disclosure behavior, and ensures the Company's information disclosure is true, accurate, complete and timely.

The audit work of the Company in 2022, focusing on two core elements of system development and execution capability enhancement, highlighted key risks that have significant impact, strengthened supervision and evaluation, and gave full play to the internal control system. The Group has carried out internal reviews of key audit matters such as the Company's sales process, accounts receivable management, procurement and payment process, related transactions, and further improved the internal control system and driving Rectifications of Internal Control Deficiencies. The Group also conducts training and learning on the internal control system for Directors, senior managers and other employees to enhance the internal control consciousness of all employees and form an internal control culture of abiding by the law.

The Board has conducted an annual review of the Group's risk management and internal control systems for the year ended 31 December 2022. The Board considers that the current risk management and internal control systems of the Group are effective and adequate.

Corporate Governance Report

Handling and dissemination of inside information

The Group regulates the handling and dissemination of inside information according to the inside information policy of the Company and the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information. Also, the Company keeps Directors, senior management and employees abreast of the latest regulatory updates. The Company shall prepare or update appropriate guidelines or policies to ensure the compliance with regulatory requirements.

SHAREHOLDERS' RIGHTS

The Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM") and for Putting Forward Proposals at General Meeting

Pursuant to Article 64 of the Articles of Association, any one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings, on a one vote per share basis in the share capital of the Company, and the foregoing Shareholders shall be able to add resolutions to the meeting agenda. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the Shareholder(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Shareholder(s) as a result of the failure of the Board shall be reimbursed to the Shareholder(s) by the Company.

The above written requisition shall be addressed to the Company's principal place of business in Hong Kong at 40th Floor, Dah Sing Financial Centre, No.248 Queen's Road East, Wanchai, Hong Kong.

There are no provisions in the Articles of Association or the Cayman Companies Act for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the above procedures for shareholders to convene an extraordinary general meeting.

Procedures for Directing Shareholders' Enquiries to the Board

Should any questions as to the Company arise, shareholders and investors may contact the Company. The contact details of the Company are as follows:

Howkingtech International Holding Limited
Address: 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong
Email: ir@howkingtech.com

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

Corporate Governance Report

INVESTOR RELATIONS

Amendments To Constitutional Document

According to the written resolutions passed by the then Shareholders on November 11, 2022, the amended and restated memorandum of association has been adopted with effect from the resolution date, and the articles of association have been adopted with effect from the Listing Date. Save as disclosed, there had been no other changes in constitutional documents of the Company during the Reporting Period.

Shareholders' Communication Policy

The Company has adopted a shareholders' communications policy which aims to set out the provisions with the objective of ensuring the Shareholder are provided with equal and timely access to information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow them to engage actively with the Company.

The Board will maintain an on-going dialogue with the Shareholders and will review the policy regularly to ensure its effectiveness. Information will be communicated to the Shareholders through the Company's financial reports, annual general meetings and other general meetings that may be convened, as well as all the disclosures submitted to the Stock Exchange. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

As disclosed in the section headed "Procedures for Directing Shareholders" Enquiries to the Board" in this annual report, designated contacts, email addresses and enquiry telephone number of the Company are provided to Shareholders in order to enable them to make any query in respect of the Company.

Having considered the various existing channels of communication and the feedbacks from the Shareholders, investors and analysts, the Board considers that the Shareholders' communication policy has been properly implemented and effective during the Reporting Period.

Independent Auditor's Report

Ernst & Young
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TO THE SHAREHOLDERS OF HOWKINGTECH INTERNATIONAL HOLDING LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Howkingtech International Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 95 to 173, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, 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.

Independent Auditor's Report

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.

Independent Auditor's Report

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade and notes receivables	
As at 31 December 2022, the trade and notes receivables balance amounted to RMB248,167,000, before loss allowance for impairment of RMB34,157,000, representing 69.2% of the Group's total assets. The impairment of trade and notes receivables was assessed based on the expected credit loss model. The assessment of expected credit losses for trade and notes receivables was performed at 31 December 2022 using the simplified approach which involved significant management's judgement and estimation including their assessment of expected credit loss rate of peer group, customers' current financial positions and forward-looking information. The assessment is highly judgmental. The Group's disclosures about trade and notes receivables are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 17 *Trade and notes receivables*, which specifically explain the accounting policies, management's estimates and the related provision.	Our audit procedures to assess impairment of trade and notes receivables included the following: (1) discussing with management to obtain an understanding of the reason and the judgement involved in estimating the peer group; (2) evaluating management's assessment of the recoverability of the receivables by reviewing the detailed analyses of the ageing of the receivables, testing on a sample basis payments received subsequent to year; (3) reviewing historical payment patterns and historical provisions along with other economic information of the receivables and any disputes between the parties involved; (4) recalculating the impairment of trade and notes receivables according to the provision matrix and checking the mathematical accuracy of the calculations; and (5) reviewing the related disclosures in the financial statements.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, the Chairman's Statement, the Report of Directors and the Corporate Governance Report, which are expected to be made available to us after that date.

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.

When we read the Chairman's Statement, the Report of Directors and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

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.

Independent Auditor's Report

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, 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.

Independent Auditor's Report

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

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 Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	**323,964**	189,552
Cost of sales		**(228,414)**	(110,753)
Gross profit		**95,550**	78,799
Other income and gains	5	**1,923**	4,066
Selling and distribution expenses		**(3,753)**	(2,140)
Administrative expenses		**(47,982)**	(28,258)
Impairment losses on financial assets, net		**(12,180)**	(11,478)
Other expenses		**(105)**	(421)
Finance costs	7	**(219)**	(500)
PROFIT BEFORE TAX	6	**33,234**	40,068
Income tax expense	10	**(4,730)**	(5,688)
PROFIT FOR THE YEAR		**28,504**	34,380
Attributable to:			
Owners of the parent		**28,504**	34,380
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**990**	(486)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**990**	(486)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**29,494**	33,894
Attributable to:			
Owners of the parent		**29,494**	33,894
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB14.93 cents**	RMB18.19 cents

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,158**	4,251
Right-of-use assets	14(a)	**1,661**	3,162
Other intangible assets	15	**157**	167
Contract assets	18	**1,983**	1,558
Deposits	19	**110**	170
Deferred tax assets	25	**5,965**	4,044
Total non-current assets		**13,034**	13,352
CURRENT ASSETS			
Inventories	16	**5,619**	2,507
Trade and notes receivables	17	**214,010**	140,751
Contract assets	18	**751**	6,620
Prepayments, other receivables and other assets	19	**4,575**	102,897
Restricted deposits	21	**–**	233
Time deposits	21	**73,396**	–
Cash and cash equivalents	21	**47,301**	86,337
Total current assets		**345,652**	339,345
CURRENT LIABILITIES			
Trade payables	22	**55,679**	27,161
Other payables and accruals	23	**29,796**	161,847
Interest-bearing bank borrowings	24	**10,369**	3,000
Lease liabilities	14(b)	**1,569**	1,450
Tax payable		**4,975**	4,422
Total current liabilities		**102,388**	197,880
NET CURRENT ASSETS		**243,264**	141,465
TOTAL ASSETS LESS CURRENT LIABILITIES		**256,298**	154,817

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	**214**	1,783
Total non-current liabilities		**214**	1,783
Net assets		**256,084**	153,034
EQUITY			
Equity attributable to owners of the parent			
Issued capital	26	**15,646**	64
Share premium	26	**175,310**	117,336
Reserves	27	**65,128**	35,634
Total Equity		**256,084**	153,034

Dr. Chen Ping
Director

Mr. Feng Yijing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Attributable to owners of the parent					
	Issued capital RMB'000	Share premium RMB'000	Capital reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total equity RMB'000
Year ended 31 December 2021						
At 1 January 2021	–	–	103,768	–	15,527	119,295
Profit for the year	–	–	–	–	34,380	34,380
Exchange differences on translation of foreign operations	–	–	–	(486)	–	(486)
Total comprehensive income for the year	–	–	–	(486)	34,380	33,894
Issue of shares (note 26)	64	117,336	–	–	–	117,400
Capital reduction (note)	–	–	(66,934)	–	(41,466)	(108,400)
Acquisition of an equity interest from the then shareholders	–	–	(9,155)	–	–	(9,155)
At 31 December 2021	64	117,336	27,679	(486)	8,441	153,034
Year ended 31 December 2022						
At 1 January 2022	**64**	**117,336**	**27,679**	**(486)**	**8,441**	**153,034**
Profit for the year	**–**	**–**	**–**	**–**	**28,504**	**28,504**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**990**	**–**	**990**
Total comprehensive income for the year	**–**	**–**	**–**	**990**	**28,504**	**29,494**
Issue of shares for the initial public offering (note 26)	**2,504**	**86,005**	**–**	**–**	**–**	**88,509**
Capitalisation issue (note 26)	**13,078**	**(13,078)**	**–**	**–**	**–**	**–**
Share issue expenses (note 26)	**–**	**(14,953)**	**–**	**–**	**–**	**(14,953)**
At 31 December 2022	**15,646**	**175,310**	**27,679**	**504**	**36,945**	**256,084**

* These reserve accounts comprise the consolidated reserves of RMB65,128,000 (2021: RMB35,634,000) in the consolidated statements of financial position.

Note:

In December 2021, Nanjing Howking Technology Co., Ltd. (南京濠暻通訊科技有限公司) ("Nanjing Howking") deducted its registered capital by RMB2,007,000 from RMB12,074,000 to RMB10,067,000. Li Zhangpeng deducted his entire registered capital for a consideration of RMB12,000,000. Zhangzhou Merchants Economic Development District HeZe Limited Partnership (漳州招商局經濟技術開發區合澤股權投資合夥企業(有限合夥)) deducted its entire registered capital for a consideration of RMB8,400,000. Ningbo Qipu Growth Ruiying Investment Management Partnership (limited partnership) (寧波啟浦成長睿贏投資管理合夥企業(有限合夥)) deducted its entire registered capital for a consideration of RMB6,000,000. Shenzhen Huixin Qianhai Equity Investment (L. P.) deducted its entire registered capital for a consideration of RMB39,000,000. Shenzhen Zhichen Wuqi Venture Investment Partnership (Limited Partnership) (深圳智宸五期創業投資合夥企業(有限合夥)) deducted its entire registered capital for a consideration of RMB10,000,000. Haining Dongzheng Hande Investment Partnership (L. P.) deducted its entire registered capital for a consideration of RMB17,000,000. Ningbo Meishan Bonded Port Area Dongzheng Xiade Investment Partnership (L. P.) deducted its entire registered capital for a consideration of RMB16,000,000.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**33,234**	40,068
Adjustments for:			
Finance costs	7	**219**	500
Interest income arising from revenue contracts	5	**(82)**	(172)
Other interest income		**(222)**	(30)
Foreign exchange differences, net		**(316)**	353
Loss on disposal of items of property, plant and equipment		**–**	59
Depreciation of property, plant and equipment	13	**1,343**	1,180
Depreciation of right-of-use assets	14(a)	**1,501**	1,476
Amortisation of government grants		**–**	(1,635)
Amortisation of other intangible assets	15	**72**	17
Impairment of trade and notes receivables	17	**12,413**	11,187
(Reversal of impairment)/impairment of contract assets	18	**(233)**	291
Operating cash flows before movements in working capital		**47,929**	53,294
Increase/(decrease) in inventories		**(3,112)**	560
Increase in trade and notes receivables		**(85,116)**	(29,800)
Increase in prepayments, other receivables and other assets		**(1,254)**	(2,419)
Decrease/(increase) in contract assets		**5,677**	(7,451)
Decrease in restricted deposits		**233**	–
Increase in trade payables		**28,518**	3,838
Increase in other payables and accruals		**13,241**	3,447
Increase in government grants		**–**	1,500
Cash generated in operations		**6,116**	22,969
Income tax paid		**(6,098)**	(6,029)
Net cash flows from operating activities		**18**	16,940

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**76**	74
Purchases of items of property, plant and equipment		**(510)**	(1,797)
Additions to other intangible assets		**(37)**	(126)
Proceeds from disposal of items of property, plant and equipment		**–**	1
Purchases of financial assets at fair value through profit or loss		**(20,200)**	(8,800)
Disposal of financial assets at fair value through profit or loss		**20,200**	10,100
Purchases of time deposits		**(73,250)**	–
Loans to a director	30(a)	**–**	(20,414)
Repayment of loans to directors		**–**	20,510
Loans to related parties	30(a)	**–**	(955)
Repayment of loans to related parties		**955**	–
Net cash flows used in investing activities		**(72,766)**	(1,407)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**184,909**	21,000
Capital reduction		**(96,400)**	(12,000)
New bank loans		**15,369**	9,100
Repayment of bank loans		**(8,000)**	(13,331)
Loans from a director	30(a)	**–**	40,880
Acquisition of an equity interest from the then shareholders		**(9,155)**	–
Repayment of loans from a director		**(40,880)**	–
Interest paid		**(100)**	(377)
Lease payments		**(1,572)**	(1,575)
Share issue expenses		**(11,291)**	(1,234)
Net cash flows from financing activities		**32,880**	42,463
NET DECREASE/(INCREASE) IN CASH AND CASH EQUIVALENTS		**(39,868)**	57,996
Cash and cash equivalents at beginning of year		**86,337**	28,807
Effect of foreign exchange rate changes, net		**832**	(466)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**47,301**	86,337
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**47,301**	86,337
Cash and cash equivalents as stated in the consolidated statements of cash flows and consolidated statements of financial position		**47,301**	86,337

Notes to Consolidated Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 25 August 2021. The registered office of the Company is located at the offices of Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally involved in provision of data transmission and processing services for Internet of Thing ("IoT") applications and telecommunication equipment.

The shares of the company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 December 2022. Dr. Chen Ping, Ms. Wang Zheshi, Ms. Jin Yan and Howkingtech Holding Limited are the controlling shareholders of the Company. Howkingtech Holding Limited is a business company incorporated in the British Virgin Islands with limited liability on 11 August 2021, which is owned by Ms. Wang Zheshi and Ms. Jin Yan.

Information about subsidiaries

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

Name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Howkingtech (BVI) Limited	British Virgin Islands 3 September 2021	US$1	100%	–	Investment holding
Parka Aragon Holding Limited	British Virgin Islands 13 October 2021	US$1	100%	–	Investment holding
HowKingTech Hong Kong Limited ("Howking Hong Kong")	Hong Kong 17 September 2021	HK$1	–	100%	Investment holding
Parka Aragon Hong Kong Limited	Hong Kong 27 October 2021	HK$1	–	100%	Investment holding

continued/…

Notes to Consolidated Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

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

Name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Nanjing Howking*	People's Republic of China ("PRC")/ Mainland China 29 September 2013	RMB127,466,667	–	100%	Research and development and sale of antenna system products, 5G equipment and other devices
Shenzhen M2Micro Electronics Co., Ltd. ("Shenzhen M2M") (深圳市物联微电子有限公司)*	PRC/ Mainland China 17 April 2012	RMB10,000,000	–	100%	Research and development and data transmission and processing services for IoT applications and assembly of antenna products
HongKong HowKing Technology Limited ("HongKong HowKing")	Hong Kong 23 January 2020	HK$31,192,800	–	100%	Import and export trade
Anji Haojing Communication Technology Co., Ltd. (安吉濠景通訊科技有限公司)	PRC/Mainland China 28 December 2022	RMB70,000,000	–	100%	Research and development and sale of antenna system products, equipment and other devices

* The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

Notes to Consolidated Financial Statements

31 December 2022

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 financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") 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 (collectively referred to as the "Group") 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).

Notes to Consolidated Financial Statements

31 December 2022

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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.

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 investments 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.

Notes to Consolidated Financial Statements

31 December 2022

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

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.

Notes to Consolidated Financial Statements

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(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. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. 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 is 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.

Notes to Consolidated Financial Statements

31 December 2022

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 amendment 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.

Notes to Consolidated Financial Statements

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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 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.

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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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.

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 amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures unlisted investments at fair value 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.

Notes to Consolidated Financial Statements

31 December 2022

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 non-current assets), 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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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 consolidated statements 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 consolidated statements of profit or loss in the period in which it arises.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(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.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, are stated at cost 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 consolidated statements 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.

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:

Leasehold improvements	Over the shorter of the lease terms and 20.0%
Machinery	10.0%~33.0%
Office equipment	20.0%~33.0%
Motor vehicles	25.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost 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 consolidated statements 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Software

Software is stated at cost less any impairment losses and its amortised on the straight-line basis over its estimated useful lives of 3 years.

Research and development costs

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

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

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.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (Continued)

Group as a lessee (Continued)

(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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Plant and office premises	2~3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(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.

The Group's lease liabilities are presented separately in the statements of financial position.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises and equipment (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)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost 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 or notes receivable 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 or notes receivable 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.

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 consolidated statements of profit or loss when the asset is derecognised, modified or impaired.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

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 profit or loss.

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 statements 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

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 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

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

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, notes receivable 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, notes receivable 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 peer group's expected credit loss, adjusted for factors specific to the debtors and the economic environment.

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

Notes to Consolidated Financial Statements

31 December 2022

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 payables, other payables and accruals, and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings 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 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 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 profit or loss.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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 and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements 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 and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks 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 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 profit or loss.

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.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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, 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.

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, and 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, 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 each 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.

Notes to Consolidated Financial Statements
31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at a nominal amount.

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.

Data transmission and processing services for IoT applications

Revenue from data transmission and processing services for IoT applications is recognised at the point in time when control of the assets or services is transferred to the customers and customer acceptance is acquired.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

Sales of telecommunication equipment

Revenue from the sales of telecommunication equipment is recognised at the point in time when control of the assets is transferred to the customers, generally on delivery of the products.

Others

Revenue from consulting, maintenance and other services is generally recognised at the point in time when control of the assets or services is transferred to the customers and customer acceptance is acquired, or over the scheduled period on a straight-line basis or over time using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

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.

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 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).

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Pension schemes

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as incurred.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government and the central government, respectively. These subsidiaries are required to contribute a certain percentage of payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

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 RMB, which is the Company's functional currency. As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency for the presentation of the financial statements. 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 periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Notes to Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting periods and their statements of profits or losses are translated into RMB 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 consolidated statements of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting periods, 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, notes receivable and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables, notes receivable and contract assets. The provision matrix is initially based on the expected credit loss rates of peer group. The Group will calibrate the matrix to adjust the expected credit loss with factors that are specific to the debtors and the economic environment. For peer group's assessment, the Group takes into consideration the ECLs accounting policy, business nature and revenue size. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition.

The assessment of ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The peer group's expected credit loss may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables, notes receivable and contract assets is disclosed in note 17 and note 18 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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. There was no carrying value of deferred tax assets relating to recognised tax losses at 31 December 2022. The amount of unrecognised tax losses at 31 December 2022 was nil (2021: RMB2,667,000). Further details are contained in note 25 to the financial statements.

Notes to Consolidated Financial Statements
31 December 2022

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) *Revenue from external customers*

	2022 **RMB'000**	2021 RMB'000
Mainland China	**305,251**	149,725
Other countries	**18,713**	39,827
	323,964	189,552

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

(b) *Non-current assets*

	2022 **RMB'000**	2021 RMB'000
Mainland China	**4,976**	7,580

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

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2022 **RMB'000**	2021 RMB'000
Customer 1	**44,235**	N/A
Customer 2	**38,180**	N/A
Customer 3	**N/A***	24,312
Customer 4	**N/A***	42,047
Customer 5	**N/A***	19,493
Customer 6	**N/A**	22,024

* Less than 10%

Notes to Consolidated Financial Statements

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 **RMB'000**	2021 RMB'000
Revenue from contracts with customers	**323,964**	189,552

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022 **RMB'000**	2021 RMB'000
Types of goods or services		
Data transmission and processing services for IoT applications	**238,073**	123,298
Sales of telecommunication equipment	**82,159**	59,969
Others	**3,732**	6,285
Total revenue from contracts with customers	**323,964**	189,552

	2022 **RMB'000**	2021 RMB'000
Timing of revenue recognition		
Goods/services transferred at a point in time	**321,865**	186,290
Services transferred over time	**2,099**	3,262
Total revenue from contracts with customers	**323,964**	189,552

Notes to Consolidated Financial Statements

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(a) Disaggregated revenue information (Continued)

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2022 **RMB'000**	2021 RMB'000
Revenue recognised that was included in in contract liabilities at the beginning of the reporting period:		
Data transmission and processing services for IoT applications	**–**	298

(b) Performance obligations

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

Data transmission and processing services for IoT applications

The performance obligation is satisfied at a point in time when customer acceptance is acquired, and payment is generally due between 3 to 300 days from the final acceptance, depending on the specific payment terms in each contract.

Sales of telecommunication equipment

The performance obligation is satisfied upon delivery of goods and payment is generally due within 6 months from delivery.

Others

Generally, the performance obligation is satisfied at a point in time when customer acceptance is acquired, and payment is generally due within 3 months from the final acceptance. For certain contracts, the performance obligation is satisfied over time as services are rendered and billed based on the time incurred.

As at the end of the reporting period, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised within one year. As permitted under HKFRS 15, the transaction prices allocated to these unsatisfied contracts are not disclosed.

Notes to Consolidated Financial Statements

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	2022 **RMB'000**	2021 RMB'000
Other income		
Bank interest income	**340**	19
Interest income arising from revenue contracts	**82**	172
Other interest income from financial assets at fair value through profit or loss	**76**	30
Government grants*	**1,040**	3,845
	1,538	4,066
Gains		
Gain on liquidation of subsidiaries	**59**	–
Foreign exchange gain	**316**	–
Others	**10**	–
	385	–
	1,923	4,066

* The government grants mainly represent incentives awarded by the local governments to support the Group's operation. The Group has some lease contracts with governments for office premises used in its operations, which are rent-free as non-monetary grants. These non-monetary grants are recorded at a nominal amount and the fair value is RMB1,149,000 (2021: RMB1,209,000).

The government grants received for which the related expenditure has not yet incurred are included in government grants in the statements of financial position. There were no unfulfilled conditions or contingencies relating to these grants.

Notes to Consolidated Financial Statements

31 December 2022

6. PROFIT BEFORE TAX

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

	Notes	**2022 RMB'000**	2021 RMB'000
Cost of inventories sold		**59,775**	41,508
Cost of services provided		**168,639**	69,245
Depreciation of property, plant and equipment*	13	**1,343**	1,180
Depreciation of right-of-use assets*	14(a)	**1,501**	1,476
Amortisation of other intangible assets*	15	**72**	17
Research and development costs		**11,308**	9,791
Lease payments not included in the measurement of lease liabilities	14(c)	**34**	17
Listing expenses		**22,536**	7,375
Auditor's remuneration		**1,800**	–
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**14,415**	11,188
Pension scheme contributions**		**1,292**	410
Staff welfare expenses		**1,587**	926
		17,294	12,524
Foreign exchange differences, net		**(316)**	353
Impairment of trade and notes receivables, net	17	**12,413**	11,187
(Reversal of impairment)/impairment of contract assets, net	18	**(233)**	291
Loss on disposal of items of property, plant and equipment		**–**	59
Bank interest income	5	**(340)**	(19)
Government grants	5	**(1,040)**	(3,845)
Gain on liquidation of subsidiaries	5	**(59)**	–

* The deprecation of property, plant and equipment and right-of-use assets and the amortisation of other intangible assets are included in "Inventories" and, "Cost of sales", "Selling and distribution expenses" and "Administrative expenses" in profit or loss.

** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

Notes to Consolidated Financial Statements

31 December 2022

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on bank loans	**97**	368
Interest on lease liabilities	**122**	132
	219	500

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to 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 RMB'000	2021 RMB'000
Fees:	**45**	–
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**2,687**	1,979
Pension scheme contributions	**162**	97
	2,849	2,076
	2,894	2,076

(a) Independent non-executive directors

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

	2022 RMB'000	2021 RMB'000
Gu Jiong	**15**	–
Fong Wo, Felix	**15**	–
Yang Hai	**15**	–
	45	–

Mr. Gu Jiong, Mr. Fong Wo, Felix and Mr. Yang Hai were appointed as the independent non-executive directors of the Company in December 2022. There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

Notes to Consolidated Financial Statements

31 December 2022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors and the chief executive

	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022			
Executive director and the chief executive:			
Chen Ping	**855**	**48**	**903**
Executive directors:			
Wang Zheshi	**131**	**22**	**153**
Feng Yijing	**945**	**50**	**995**
Wang Jun	**756**	**42**	**798**
	1,832	**114**	**1,946**
	2,687	**162**	**2,849**
2021			
Executive director and the chief executive:			
Chen Ping	846	38	884
Executive directors:			
Wang Zheshi	129	14	143
Feng Yijing	856	38	894
Wang Jun	148	7	155
	1,133	59	1,192
	1,979	97	2,076

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

Notes to Consolidated Financial Statements
31 December 2022

9. FIVE HIGHEST PAID EMPLOYEES

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

	2022 **RMB'000**	2021 RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,308**	1,292
Pension scheme contributions	**76**	110
	1,384	1,402

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

	Number of employees	
	2022	2021
Nil to HK$1,000,000	**2**	3

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and its subsidiaries are not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for income tax has been made as the Group did not generate any assessable profits in Hong Kong during the year (2021: Nil).

The provision for current income tax in Mainland China is based on the statutory rate of 25% of the assessable profits of subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Notes to Consolidated Financial Statements

31 December 2022

10. INCOME TAX (CONTINUED)

Nanjing Howking and Shenzhen M2M were recognised as a High and New Technology Enterprise and are entitled to a preferential income tax rate of 15% from 2022 to 2024. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Howking Technology (Shenzhen) Co., Ltd. ("Shenzhen Howking") (濠暻科技（深圳）有限公司) was entitled to a preferential income tax rate of 5% for the taxable income less than or equal to RMB1,000,000 during the year ended 31 December 2021. Shenzhen Howking was deregistered in April 2022.

	2022 **RMB'000**	2021 RMB'000
Current	**6,651**	7,462
Deferred (note 25)	**(1,921)**	(1,774)
Total tax charge for the year	**4,730**	5,688

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2022 **RMB'000**	2021 RMB'000
Profit before tax	**33,234**	40,068
Tax at the statutory tax rate	**8,309**	10,043
Lower tax rates enacted by local authorities	**(3,495)**	(4,038)
Expenses not deductible for tax	**2,024**	898
Additional deductible allowance for research and development costs	**(1,228)**	(1,228)
Tax losses utilised from previous periods	**(26)**	–
Tax losses not recognised	**–**	13
Others	**(854)**	–
Tax charge at the Group's effective rate	**4,730**	5,688

11. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation.

12. 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 190,972,603 (2021: 189,000,000) in issue during the year on the assumption that the capitalisation issue had been completed on 1 January 2021.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**28,504**	34,380

	Number of shares 2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year	**190,972,603**	189,000,000

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2022					
At 1 January 2022:					
Cost	1,296	6,329	786	340	8,751
Accumulated depreciation	(465)	(3,542)	(486)	(7)	(4,500)
Net carrying amount	831	2,787	300	333	4,251
At 1 January 2022, net of accumulated depreciation	831	2,787	300	333	4,251
Additions	13	97	140	–	250
Depreciation provided during the year	(433)	(675)	(154)	(81)	(1,343)
At 31 December 2022, net of accumulated depreciation	411	2,209	286	252	3,158
At 31 December 2022:					
Cost	1,309	6,426	926	340	9,001
Accumulated depreciation	(898)	(4,217)	(640)	(88)	(5,843)
Net carrying amount	411	2,209	286	252	3,158

Notes to Consolidated Financial Statements

31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold improvements RMB'000	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2021					
At 1 January 2021:					
Cost	1,267	6,048	696	230	8,241
Accumulated depreciation	(35)	(3,767)	(453)	(218)	(4,473)
Net carrying amount	1,232	2,281	243	12	3,768
At 1 January 2021, net of accumulated depreciation	1,232	2,281	243	12	3,768
Additions	29	1,127	227	340	1,723
Disposal	–	(46)	(2)	(12)	(60)
Depreciation provided during the year	(430)	(575)	(168)	(7)	(1,180)
At 31 December 2021, net of accumulated depreciation	831	2,787	300	333	4,251
At 31 December 2021:					
Cost	1,296	6,329	786	340	8,751
Accumulated depreciation	(465)	(3,542)	(486)	(7)	(4,500)
Net carrying amount	831	2,787	300	333	4,251

Notes to Consolidated Financial Statements

31 December 2022

14. LEASES

The Group as a lessee

The Group has lease contracts for plant and office premises used in its operations. Leases of plant and office premises generally have lease terms between 2 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Plant and office premises RMB'000
As at 1 January 2021	496
Additions	4,142
Depreciation charge (note 6)	(1,476)
As at 31 December 2021 and 1 January 2022	3,162
Depreciation charge (note 6)	(1,501)
As at 31 December 2022	**1,661**

(b) Lease liabilities

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

	2022 **RMB'000**	2021 RMB'000
Carrying amount at 1 January	**3,233**	534
New leases	**–**	4,142
Accretion of interest recognised during the year	**122**	132
Payments	**(1,572)**	(1,575)
Carrying amount at 31 December	**1,783**	3,233
Analysed into:		
Current portion	**1,569**	1,450
Non-current portion	**214**	1,783

The maturity analysis of lease liabilities is disclosed in note 32 to the financial statements.

Notes to Consolidated Financial Statements

31 December 2022

14. LEASES (CONTINUED)

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

	2022 **RMB'000**	2021 RMB'000
Interest on lease liabilities	**122**	132
Depreciation charge of right-of-use assets	**1,501**	1,476
Expense relating to short-term leases (included in administrative expenses)	**34**	17
Total amount recognised in profit or loss	**1,657**	1,625

(d) The total cash outflow for leases is disclosed in note 28(c) to the financial statements.

Notes to Consolidated Financial Statements

31 December 2022

15. OTHER INTANGIBLE ASSETS

	Software RMB'000
31 December 2022	
Cost at 1 January 2022, net of accumulated amortisation	**167**
Additions	**62**
Amortisation provided during the year	**(72)**
At 31 December 2022	**157**
At 31 December 2022:	
Cost	**262**
Accumulated amortisation	**(105)**
Net carrying amount	**157**
31 December 2021	
At 1 January 2021:	
Cost	93
Accumulated amortisation	(35)
Net carrying amount	58
Cost at 1 January 2021, net of accumulated amortisation	58
Additions	126
Amortisation provided during the year	(17)
At 31 December 2021	167
At 31 December 2021 and at 1 January 2022:	
Cost	219
Accumulated amortisation	(52)
Net carrying amount	167

Notes to Consolidated Financial Statements

31 December 2022

16. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**952**	1,418
Work in progress	**3,131**	685
Finished goods	**1,536**	404
	5,619	2,507

17. TRADE AND NOTE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**238,024**	163,118
Notes receivable measure at amortised cost	**10,143**	–
Impairment	**(34,157)**	(22,367)
	214,010	140,751

The Group's trading terms with its customers are mainly on credit. The credit period is generally 3 to 300 days, depending on the specific payment terms in each contract. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing except the trade receivables generated from a contract which contains a significant financing component with a five-year credit period.

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

	2022 RMB'000	2021 RMB'000
Within 1 year	**169,291**	68,857
1 to 2 years	**18,309**	47,387
2 to 3 years	**23,636**	19,859
3 to 4 years	**2,235**	4,648
4 to 5 years	**539**	–
	214,010	140,751

17. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	2022 RMB'000	2021 RMB'000
At beginning of year	**22,367**	11,180
Impairment losses, net (note 6)	**12,413**	11,187
Amount written off as uncollectible	**(623)**	–
At end of year	**34,157**	22,367

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade and notes receivables. To measure the expected credit losses, trade and notes receivables have been grouped based on shared credit risk characteristics. The provision rates are based on its peer group's expected credit loss rate and ageing for groupings of various customer with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each of the reporting period about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade and notes receivables using a provision matrix:

As at 31 December 2022

	Gross carrying amount RMB'000	**Expected credit loss rate**	**Expected credit loss RMB'000**
Individually assessed:			
Credit risk increased significantly	**11,473**	**100.00%**	**11,473**
Collectively assessed:			
Less than 1 year	**175,450**	**3.51%**	**6,159**
1 to 2 years	**20,411**	**10.30%**	**2,102**
2 to 3 years	**33,389**	**29.21%**	**9,753**
3 to 4 years	**5,037**	**55.63%**	**2,802**
4 to 5 years	**2,407**	**77.61%**	**1,868**
	248,167		**34,157**

Notes to Consolidated Financial Statements

31 December 2022

17. TRADE AND NOTES RECEIVABLES (CONTINUED)

As at 31 December 2021

	Gross carrying amount RMB'000	Expected credit loss rate	Expected credit loss RMB'000
Individually assessed:			
Credit risk increased significantly	7,323	77.18%	5,652
Collectively assessed:			
Less than 1 year	71,673	3.93%	2,816
1 to 2 years	52,444	9.64%	5,057
2 to 3 years	25,687	25.43%	6,533
3 to 4 years	5,991	38.54%	2,309
	163,118		22,367

The Group endorsed certain notes receivable (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB2,816,000 (the "Endorsement") at 31 December 2022 (2021: Nil). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the drawer of notes defaulted (the "Continuing Involvement").

The Group continued to recognise the full carrying amounts of the Endorsed Notes and the associated trade payables settled with an amount of RMB2,816,000 at 31 December 2022 (2021: Nil), because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes.

No gains or losses were recognised from the Continuing Involvement during the year ended 31 December 2022. The Endorsement has been made evenly during the year.

18. CONTRACT ASSETS

	2022 RMB'000	2021 RMB'000
Contract assets arising from:		
Data transmission and processing services for IoT applications	**2,400**	8,362
Sales of telecommunication equipment	**433**	148
	2,833	8,510
Impairment	**(99)**	(332)
	2,734	8,178
Analysed into:		
Current	**751**	6,620
Non-current	**1,983**	1,558

Contract assets are initially recognised for revenue earned from data transmission and processing services for IoT applications and sales of telecommunication equipment as the receipt of consideration is conditional on successful completion of warranty periods. Included in contract assets are retention receivables. Upon completion of warranty periods, the amounts recognised as contract assets are reclassified to trade receivables. The Group's trading terms and credit policy with customers are disclosed in note 17 to the financial statements.

The expected timing of recovery or settlement for contract assets as at the end of reporting period is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	**751**	6,620
After 1 year	**1,983**	1,558
	2,734	8,178

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

	2022 RMB'000	2021 RMB'000
At beginning of year	**332**	41
(Reversal of impairment)/impairment losses, net (note 6)	**(233)**	291
At end of year	**99**	332

Notes to Consolidated Financial Statements

31 December 2022

18. CONTRACT ASSETS (CONTINUED)

An impairment analysis is performed at the end of the reporting period 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.

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

	2022	2021
Expected credit loss rate	**3.49%**	3.90%
Gross carrying amount (RMB'000)	**2,833**	8,510
Expected credit loss (RMB'000)	**99**	332

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 **RMB'000**	2021 RMB'000
Non-current:		
Deposits	**110**	170
Current:		
Prepayments	**3,668**	2,743
Deferred listing expenses	**–**	2,227
Deductible input value-added tax	**370**	118
Due from a related party (note 30(b))	**–**	955
Due from shareholders	**–**	96,400
Deposits and other receivables	**537**	454
	4,575	102,897
	4,685	103,067

An impairment analysis was performed at the end of the reporting period. The Group has applied the general approach to provide expected credit losses for non-trade other receivables under HKFRS 9. The Group considered the historical loss rate and adjusted for forward-looking macroeconomic data in calculating the expected credit loss rate.

The financial assets included in the above balances are unsecured and repayable on demand and relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the Group estimated that the expected loss rate for deposits and other receivables was minimal under the 12-month expected loss method.

Notes to Consolidated Financial Statements

31 December 2022

20. LOANS TO DIRECTORS

Loans to a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Name	At 31 December 2022 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2021 RMB'000	Maximum amount outstanding during the year RMB'000	At 1 January 2021 RMB'000	Security held
Dr. Chen Ping	–	–	–	20,414	96	None

The loans granted to a director were unsecured, interest-free, non-trade in nature and repayable on demand.

Notes to Consolidated Financial Statements

31 December 2022

21. CASH AND CASH EQUIVALENTS

	2022 **RMB'000**	2021 RMB'000
Cash and bank balances	**120,697**	86,570
Less: Restricted deposits	**–**	(233)
Time deposits	**(73,396)**	–
Cash and cash equivalents	**47,301**	86,337
Denominated in:		
RMB	**27,167**	20,257
US$	**17,255**	25,200
HK$	**2,879**	40,880
Total cash and cash equivalents	**47,301**	86,337

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and 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 one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Notes to Consolidated Financial Statements

31 December 2022

22. TRADE PAYABLES

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

	2022 RMB'000	2021 RMB'000
Within 1 year	**51,887**	16,748
1 to 2 years	**2,149**	3,866
2 to 3 years	**422**	5,420
Over 3 years	**1,221**	1,127
	55,679	27,161

The trade payables are non-interest-bearing and have no fixed terms of payment.

23. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Other payables	(a)	**11,546**	101,393
Contract liabilities	(b)	**5,223**	–
Due to a related party	30(c)	**–**	5,086
Due to a director	30(d)	**–**	44,949
Other tax payables		**5,002**	3,828
Payroll and welfare payable		**8,025**	6,588
Interest payable		**–**	3
		29,796	161,847

Notes:

(a) Other payables are non-interest-bearing and repayable on demand.

(b) Details of contract liabilities are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000	1 January 2021 RMB'000
Short-term advances received from customers			
Data transmission and processing services for IoT applications	**5,223**	–	298

Notes to Consolidated Financial Statements

31 December 2022

24. INTEREST-BEARING BANK BORROWINGS

31 December 2022

		Effective interest rate	Maturity	RMB'000
Bank loans – unsecured	(a)	**3.65%**	**2023**	**3,560**
Bank loans – secured	(b)	**3.30%**	**2023**	**6,809**
				10,369

31 December 2021

		Effective interest rate	Maturity	RMB'000
Bank loans – secured	(b)	4.15%	2022	3,000

	2022 RMB'000	2021 RMB'000
Analysed into:		
Within one year	**10,369**	3,000

Notes:

(a) The bank facilities amounted to RMB10,000,000 as at 31 December 2022.

(b) Three patents of Nanjing Howking were pledged for the bank loans at 31 December 2021 and 31 December 2022.

25. DEFERRED TAX

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

2022

Deferred tax liabilities

	Right-of-use assets RMB'000
At 1 January 2022	**474**
Deferred tax credited to profit or loss during the year	**(225)**
Gross deferred tax liabilities at 31 December 2022	**249**

Deferred tax assets

	Impairment of financial assets RMB'000	Accrued expenses RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2022	**3,396**	**637**	**485**	**4,518**
Deferred tax credited/(charged) to profit or loss during the year	**1,742**	**172**	**(218)**	**1,696**
Gross deferred tax assets at 31 December 2022	**5,138**	**809**	**267**	**6,214**

2021

Deferred tax liabilities

	Right-of-use assets RMB'000
At 1 January 2021	74
Deferred tax charge to profit or loss during the year	400
Gross deferred tax liabilities at 31 December 2021	474

Notes to Consolidated Financial Statements

31 December 2022

25. DEFERRED TAX (CONTINUED)

2021 (Continued)

Deferred tax assets

	Impairment of financial assets RMB'000	Accrued expenses RMB'000	Lease liabilities RMB'000	Government grants RMB'000	Total RMB'000
At 1 January 2021	1,675	569	80	20	2,344
Deferred tax credited/(charged) to profit or loss during the year	1,721	68	405	(20)	2,174
Gross deferred tax assets at 31 December 2022	3,396	637	485	–	4,518

For presentation purposes, 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 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**5,965**	4,044

For the year ended 31 December 2021, the Group had tax losses arising in Mainland China of RMB2,667,000 that would expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses 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.

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

	2022 RMB'000	2021 RMB'000
Tax losses	**–**	2,667

Notes to Consolidated Financial Statements

31 December 2022

25. DEFERRED TAX (CONTINUED)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment subsidiaries 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 for withholding taxes on dividends distributed by those foreign invested subsidiaries 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 unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, these subsidiaries' fund will be retained in Mainland China for the expansion of these subsidiaries' operation, so 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 RMB71,046,000 at 31 December 2022 (2021: RMB39,711,000).

26. ISSUED CAPITAL

	2022 **RMB'000**	2021 RMB'000
Authorised: 300,000,000 (2021: 5,000,000) ordinary shares of US$0.01 each	**20,863**	324
Issued and fully paid: 225,000,000 (2021: 999,874) ordinary shares of US$0.01 each	**15,646**	64

Notes to Consolidated Financial Statements

31 December 2022

26. ISSUED CAPITAL (CONTINUED)

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000
At 1 January 2021	–	–	–
Issue of ordinary shares (note a)	999,874	64	117,336
At 31 December 2021 and 1 January 2022	999,874	64	117,336
Issue of ordinary shares (note b)	36,000,000	2,504	86,005
Capitalisation issue (note b)	188,000,126	13,078	(13,078)
Share issue expenses (note b)	–	–	(14,953)
At 31 December 2022	225,000,000	15,646	175,310

Note:

(a) The Company was incorporated in the Cayman Islands on 25 August 2021 as an exempted company with authorised share capital of US$5,000,000 with par value of US$0.01 each.

On 16 November 2021, 772,789 ordinary shares were allotted and issued for cash at par to Howkingtech Holding Limited.

On 10 December 2021, Howkingtech Holding Limited transferred 131,999 ordinary shares, of which 49,438 ordinary shares were transferred to Chak Man Wu for a consideration of RMB30,000,000, 9,888 ordinary shares were transferred to Shenzhen Brightmin Management Consulting Partnership (Limited Partnership) (深圳市亮敏管理諮詢合夥企業(有限合夥)) for a consideration of RMB6,000,000, 39,550 ordinary shares were transferred to Jianzhong Huang for a consideration of RMB24,000,000 and 33,123 ordinary shares were transferred to Chin-shan Wu for a consideration of RMB20,100,000.

On 10 December 2021, 75,201 ordinary shares were allotted and issued for cash at par to Shanghai Jinyuan Changfu Enterprise Management Partnership (Limited Partnership) (上海進源長富企業管理合夥企業(有限合夥)) for a consideration of RMB39,000,000, 32,780 ordinary shares were allotted and issued for cash at par to Haining Dongzheng Hande Investment Partnership (L. P.) for a consideration of RMB17,000,000, 30,852 ordinary shares were allotted and issued for cash at par to Ningbo Meishan Bonded Port Area Dongzheng Xiade Investment Partnership (L. P.) for a consideration of RMB16,000,000, 23,139 ordinary shares were allotted and issued for cash at par to Shenzhen Tim Win Investment Partnership (L. P.) (深圳市添運投資合夥企業(有限合夥)) for a consideration of RMB12,000,000, 19,282 ordinary shares were allotted and issued for cash at par to Shenzhen Zhichen Wuqi Venture Investment Partnership (Limited Partnership) for a consideration of RMB10,000,000, 16,197 ordinary shares were allotted and issued for cash at par to Zhangzhou Merchants Economic Development District HeZe Limited Partnership for a consideration of RMB8,400,000, 11,569 ordinary shares were allotted and issued for cash at par to Ningbo Qipu Growth Ruiying Investment Management Partnership (limited partnership) for a consideration of RMB6,000,000, and 11,124 ordinary shares were allotted and issued for cash at par to Zibo Puhao Equity Investment Partnership (Limited Partnership) (淄博浦濠股權投資合夥企業(有限合夥)) for a consideration of RMB9,000,000. 6,941 ordinary shares were allotted and issued at par to Chak Man Wu in exchange of the entire issued share capital of Parka Aragon Holding Limited.

(b) On 11 November 2022, the Company increased its authorised share capital from US$50,000 divided into 5,000,000 shares of US$0.01 each to US$3,000,000 divided into 300,000,000 shares of US$0.01 each by creation of an additional 295,000,000 shares (ranking pari passu in all respects with the then existing issued shares).

In connection with the Company's initial public offering, 36,000,000 shares of US$0.01 each (equivalent to RMB2,504,000) were issued at a price of HK$2.73 per share for a total cash consideration (equivalent to RMB88,509,000), before share issue expenses of RMB14,953,000.

Upon the share premium amount of the Company being credited as a result of the initial public offering, the directors were authorised to capitalise the amount of US$1,880,000 (equivalent to RMB13,078,000) from the amount standing to the credit of the share premium account of the Company to pay up in full at par 188,000,126 shares for allotment and issue to the persons whose names appear on the register of members of the Company as of the date of the passing of the resolution in proportion to their then existing shareholdings in the Company.

Notes to Consolidated Financial Statements

31 December 2022

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity of the Group.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group. Details of the movements in the capital reserve are set out in the consolidated statements of changes in equity.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities whose functional currencies are not RMB.

28. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

For the year ended 31 December 2021, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB4,142,000 and RMB4,142,000, respectively, in respect of lease arrangements for plant and office premises.

(b) Changes in liabilities arising from financing activities

2022

	Due to a director RMB'000	Due to a related party RMB'000	Interest-bearing bank borrowings RMB'000	Interest payable RMB'000	Lease liabilities RMB'000
At 1 January 2022	44,949	5,086	3,000	3	3,233
Changes from financing cash flows	(44,949)	(5,086)	7,369	(100)	(1,572)
Interest expense	–	–	–	97	122
At 31 December 2022	–	–	10,369	–	1,783

Notes to Consolidated Financial Statements

31 December 2022

28. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities (Continued)

2021

	Due to a director RMB'000	Due to a related party RMB'000	Interest-bearing bank borrowings RMB'000	Interest payable RMB'000	Lease liabilities RMB'000
At 1 January 2021	–	–	7,231	12	534
Changes from financing cash flows	40,880	5,086	(4,231)	(377)	(1,575)
The payable as part of the Reorganisation	4,069	–	–	–	–
New leases	–	–	–	–	4,142
Interest expense	–	–	–	368	132
At 31 December 2021	44,949	5,086	3,000	3	3,233

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

	2022 RMB'000	2021 RMB'000
Within operating activities	**34**	17
Within financing activities	**1,572**	1,575
	1,606	1,592

29. COMMITMENTS

At the end of the reporting period, the Group did not have any significant commitments.

Notes to Consolidated Financial Statements

31 December 2022

30. RELATED PARTY TRANSACTIONS

Name	Relationship
Dr. Chen Ping	Executive director and the chief executive
Ms. Wang Zheshi	An ultimate shareholder and a director
Ms. Jin Yan	An ultimate shareholder
Nanjing ETIC Communication Technology Co., Ltd. ("Nanjing Yitaike")	A fellow subsidiary

(a) The Group had the following transactions with related parties during the year:

	2022 RMB'000	2021 RMB'000
A fellow subsidiary:		
Loan to	–	955
Directors:		
Loans to	–	20,414
Loans from	–	40,880
Acquisition of an equity interest in relation to the Reorganisation from	–	4,069
An ultimate shareholder:		
Acquisition of an equity interest in relation to the Reorganisation from	–	5,086

(b) Outstanding balances with related parties:

Due from a related party:

	Note	**2022 RMB'000**	2021 RMB'000
Nanjing Yitaike	(i)	–	955

Due to a related party:

		2022 RMB'000	2021 RMB'000
Ms. Jin Yan	(i)	–	5,086

Note:

(i) The balances were non-trade in nature, unsecured, interest-free and repayable on demand, and had been repaid in 2022.

Notes to Consolidated Financial Statements

31 December 2022

30. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balance with a director:

Due to a director:

	Note	2022 RMB'000	2021 RMB'000
Ms. Wang Zheshi	(i)	–	44,949

Note:

(i) The balance was non-trade in nature, unsecured, interest-free and repayable on demand, and had been repaid in 2022.

(d) Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	4,506	3,165
Pension scheme contributions	313	200
Total compensation paid to key management personnel	4,819	3,365

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

Notes to Consolidated Financial Statements

31 December 2022

31. 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

	Financial assets at amortised cost RMB'000
Trade and notes receivables	**214,010**
Financial assets included in prepayments, other receivables and other assets	**647**
Time deposits	**73,396**
Cash and cash equivalents	**47,301**
	335,354

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	**55,679**
Lease liabilities	**1,783**
Financial liabilities included in other payables and accruals	**11,546**
Interest-bearing bank borrowings	**10,369**
	79,377

Notes to Consolidated Financial Statements

31 December 2022

31. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2021

Financial assets

	Financial assets at amortised cost RMB'000
Trade and notes receivables	140,751
Financial assets included in prepayments, other receivables and other assets	97,979
Restricted deposits	233
Cash and cash equivalents	86,337
	325,300

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	27,161
Lease liabilities	3,233
Financial liabilities included in other payables and accruals	151,431
Interest-bearing bank borrowings	3,000
	184,825

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, financial assets included in prepayments, other receivables and other assets, interest-bearing bank borrowings, and financial liabilities included in other payables and accruals. 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 notes receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Notes to Consolidated Financial Statements

31 December 2022

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to exchange differences resulting from translation of the financial statements of certain overseas subsidiaries).

	Increase/ (decrease) in rate of foreign currency %	**Increase/ (decrease) in profit before tax** RMB'000	**Increase/ (decrease) in equity*** RMB'000
31 December 2022			
If the RMB weakens against the US$	**5**	**1,212**	**(5,701)**
If the RMB strengthens against the US$	**(5)**	**(1,212)**	**5,701**
If the RMB weakens against the HK$	**5**	**3,747**	**–**
If the RMB strengthens against the HK$	**(5)**	**(3,747)**	**–**
31 December 2021			
If the RMB weakens against the US$	5	(194)	(2,485)
If the RMB strengthens against the US$	(5)	194	2,485
If the RMB weakens against the HK$	5	2,044	–
If the RMB strengthens against the HK$	(5)	(2,044)	–

* Excluding retained profits

Notes to Consolidated Financial Statements

31 December 2022

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades mainly 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.

Maximum exposure and year-end staging

The table 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 at the end of the reporting period. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and notes receivables	–	–	–	248,167	248,167
Contract assets	–	–	–	2,833	2,833
Financial assets included in prepayments, other receivables and other assets – Normal*	647	–	–	–	647
Time deposits – Not yet past due	73,396	–	–	–	73,396
Cash and cash equivalents – Not yet past due	47,301	–	–	–	47,301
	121,344	–	–	251,000	372,344

Notes to Consolidated Financial Statements

31 December 2022

32. 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 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and notes receivables	–	–	–	163,118	163,118
Contract assets	–	–	–	8,510	8,510
Financial assets included in prepayments, other receivables and other assets					
– Normal*	97,979	–	–	–	97,979
Restricted deposits					
– Not yet past due	233	–	–	–	233
Cash and cash equivalents					
– Not yet past due	86,337	–	–	–	86,337
	184,549	–	–	171,628	356,177

* The credit quality of the financial assets included in prepayments, other receivables and other assets 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".

Notes to Consolidated Financial Statements

31 December 2022

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

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:

	As at 31 December 2022					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Trade payables	**55,679**	**–**	**–**	**–**	**–**	**55,679**
Lease liabilities	**–**	**401**	**1,219**	**215**	**–**	**1,835**
Financial liabilities included in other payables and accruals	**11,546**	**–**	**–**	**–**	**–**	**11,546**
Interest-bearing bank borrowings	**–**	**6,861**	**3,655**	**–**	**–**	**10,516**
	67,225	**7,262**	**4,874**	**215**	**–**	**79,576**

	As at 31 December 2021					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	27,161	–	–	–	–	27,161
Lease liabilities	–	393	1,179	1,835	–	3,407
Financial liabilities included in other payables and accruals	151,431	–	–	–	–	151,431
Interest-bearing bank borrowings	–	31	3,091	–	–	3,122
	178,592	424	4,270	1,835	–	185,121

32. 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 gearing ratio, which is total debt divided by total equity. Total debt includes interest-bearing bank borrowings and lease liabilities. The gearing ratios as at the end of the reporting periods were as follows:

	2022 **RMB'000**	2021 RMB'000
Interest-bearing bank borrowings	**10,369**	3,000
Lease liabilities	**1,783**	3,233
Total debt	**12,152**	6,233
Total equity	**256,084**	153,034
Gearing ratio	**4.7%**	4.1%

Notes to Consolidated Financial Statements

31 December 2022

33. STATEMENTS 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 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Investments in a subsidiary*	117,379	–
Total non-current assets	117,379	–
CURRENT ASSETS		
Cash and cash equivalents	2,879	–
Time deposits	73,396	–
Due from subsidiaries	–	20,970
Prepayments, other receivables and other assets	95	–
Other receivables	–	96,400
Total current assets	76,370	117,370
CURRENT LIABILITIES		
Due to subsidiaries	8,221	–
Other payables and accruals	2,095	–
Total current liabilities	10,316	–
NET CURRENT ASSETS	66,054	117,370
TOTAL ASSETS LESS CURRENT LIABILITIES	183,433	117,370
Net assets	183,433	117,370
EQUITY		
Issued capital	15,646	64
Share premium	175,310	117,336
Accumulated losses	(7,523)	(30)
Total equity	183,443	117,370

* As at 31 December 2022, in the opinion of the directors, these balances due from Howking Hong Kong of RMB117,379,000 are unlikely to be repaid in the foreseeable future and considered as part of the Group's net investments in the subsidiary.

33. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Accumulated Losses RMB'000
At 1 January 2021	–
Loss for the year	(30)
Total comprehensive income for the year	(30)
At 31 December 2021 and 1 January 2021	(30)
Loss for the year	(7,493)
Total comprehensive income for the year	(7,493)
At 31 December 2021	(7,523)

34. EVENTS AFTER THE RELEVANT PERIOD

No significant events that require additional disclosure or adjustments occurred after the reporting period.

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2023.

Definitions

"2023 AGM"	the forthcoming annual general meeting of the Company to be held on May 30, 2023
"5G"	the 5th generation mobile network, a new global wireless standard after 1G, 2G, 3G and 4G networks
"Articles" or "Articles of Association"	the amended and restated articles of association of the Company conditionally adopted on November 11, 2022 and effective on December 12, 2022, as amended or supplemented from time to time
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors
"CAGR"	compound annual growth rate; the CAGR formula involves (i) dividing the ending value by the beginning value, (ii) making a radical of the amount by the number of years (e.g., 2019~2021=2 years) and (iii) subtracting one to make the rate a percentage
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report only and except where the context requires otherwise, references in this annual report to "China" or "PRC" do not include Hong Kong, the Macau Special Administrative Region and Taiwan
"Company"	Howkingtech International Holding Limited, an exempted company with limited liability incorporated in Cayman Islands on August 25, 2021, and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on January 13, 2022
"Controlling Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules, and unless the context otherwise requires, refers to Dr. Chen Ping, Ms. Wang Zheshi, Ms. Jin Yan and Howkingtech Holding Limited
"COVID-19"	a viral respiratory disease caused by the severe acute respiratory syndrome coronavirus 2, believed to have first emerged in late 2019
"Deed of Non-competition"	the deed of non-competition dated November 11, 2022 entered into by the Controlling Shareholders with and in favor of the Company (for itself and as trustee for its subsidiaries)
"Director(s)"	the director(s) of the Company
"GDP"	gross domestic product
"Global Offering"	the Hong Kong public offering and international offering of the Shares
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

Definitions

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Howkingtech" or "Group"	the Company and its subsidiaries
"IT"	information technology
"IoT"	internet of things
"Latest Practicable Date"	April 14, 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	December 12, 2022, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LORA"	Long Range, a proprietary low-power wide-area network modulation technique
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"OEM"	original equipment manufacturer
"Prospectus"	the prospectus of the Company dated November 30, 2022 in connection with the Global Offering
"pRRU"	pico remote radio unit, which is used to the baseband unit
"R&D"	research and development
"Remuneration Committee"	the remuneration committee of the Board
"Reorganization"	the reorganization of the Group in preparation for the Listing, details of which are set forth in "History, Reorganization and Corporate Structure" in the Prospectus
"Reporting Period" or "Year"	the year ended December 31, 2022
"Russian distributor"	the Group's overseas distributor who distributed its vehicle mounted antennas in Russia during the Reporting Period
"RMB"	Renminbi, the lawful currency of China

Definitions

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Option Scheme"	the share option scheme adopted by the Company on November 11, 2022
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	the ordinary share(s) of nominal value of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"Universal IoT Platform"	the Group's self-developed centralized data platform of IoT solutions, which provides the infrastructural functions for upper applications
"WLAN"	wireless local-area network
"%"	per cent