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

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

Stock code 股份代號：6133

Annual Report 2022 年度報告

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

COMPANY SECRETARY
Chui Man Lung Everett

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

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

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

RISK MANAGEMENT COMMITTEE
Wong Ho Chun *(Chairman)*
Rong Xiuli
Rong Shengli

AUTHORISED REPRESENTATIVES
Rong Xiuli
Chui Man Lung Everett

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

PRINCIPAL BANKERS
Shanghai Commercial Bank
China Everbright Bank

LEGAL ADVISERS
As to Hong Kong Law
Sidley Austin

As to PRC Law
HeNan BoYin Law Firm

As to Cayman Islands Law
Conyers Dill & Pearman

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

PRINCIPAL PLACE OF BUSINESS AND OPERATING HEAD OFFICE IN CHINA

101-1713, 7th Floor, Block 1
No. 55 Jiachuang Second Road
Beijing Economic-Technological
Development Area (Tongzhou)
Beijing
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRARS

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

Hong Kong Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
17/F., Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

6133

COMPANY'S WEBSITE

www.vitalinno.com

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

2022 is one of the most difficult years for all businesses in the last few decades. A set of different factors adversely affecting the economy was influencing the development of worldwide economy and Chinese economy. On the one hand, the pandemic hits the Chinese economy and sentiment in consumers market. The pace for the economic machine had been slowed down. Due to the precautions for pandemic, the economic downturn and worsening expectation for the growth of the economy, the sales of smartphone market continued to drop.

On the other hand, not only the Chinese entrepreneurs' confidence had been tested by the difficulty, but the worldwide liquidity provider, the US Fed had stepped into its plan for quantitative tapering by tremendously tightening the liquidity since 2008. The majority of the world was facing serious inflation pressure along with lowering economic growth.

Despite all these difficulties, the Chinese government still managed to lead our country to achieve a positive economic growth of 3%. It is a stunning number when there were all dimensional adverse factors dragging the whole economy to an economic downturn.

Worldwide smartphone shipments declined 18.3% year over year to 300.3 million units in the fourth quarter of 2022, according to International Data Corporation ("IDC") Worldwide Quarterly Mobile Phone Tracker. The drop marks the largest ever decline in a single quarter since 2013 and contributed to a steep 11.3% decline for the year. 2022 ended with shipments of 1.21 billion units, which represents the lowest annual shipments total since 2013 as a result of significantly dampened consumer demand, inflation, and economic uncertainties.

Facing with such situation, the management adopted a defensive strategy by controlling operating expenses to survive in such a tough time while trying to achieve its strategic goal of seeking new opportunities to grow our sales. By constant hard work of the management and staff members, the Group successfully maintained the operation in this extreme environment and strove hard to maintain its customer base through innovation and efficiency. The management continued to adjust the margin policy to upkeep sales volume and achieved a sales revenue of approximately RMB1,092.2 million, representing 62.4% increase of the sales on 2021 in such a tough year. The increased sales volume was contributed by the new domestic sales in China of the top and famous smartphones brands. Operating loss reduced from RMB20.6 million in 2021 to RMB17.6 million in 2022 resulting from the increase in domestic sales.

BUSINESS OUTLOOK

We predict, in 2023, the open of China will bring confidence back to the economy. The commercial connection between the world and China would soon get better and will bring in more capital and opportunities for international trade. The trade barriers caused by the precautions and controlling measures to handle the COVID-19 no longer exist since first quarter of 2023.

With people's life gradually back to normal, the Chinese government is determined and has already set the direction for 2023 to stride for economic development. We believe the business environment in 2023 would be better than that of 2022 due to less adverse factors affecting the economy.

Government's support and stimulus is expected to be stronger. International and domestic trade will be encouraged. The economic growth is expected to be even stronger than that of 2022. However, the smartphone market is expected to face pressure due to the maturity of smartphone innovation. In 2022, the new flagship products of different smartphone manufacturers could not bring fundamental innovation to improve the current smartphone and thus the sentiment to replace the existing smartphone had been weakened and this further gave pressure to worldwide sales of smartphone. We have confidence in China's future business environment but we believe the innovative breakthrough of smartphone may not necessarily happen in 2023 and the sales of the smartphone may still face difficulty. We anticipate that demand may be improved in many markets, and to some extent we are seeing increasing consumer interest in 5G, high-end and new form factors like foldable phones.

With smartphone shipment declined by more than 11% for the year of 2022, 2023 is set to be a year of caution as vendors will rethink their portfolio of devices while distributors will think twice before taking on excess inventory. However, on a positive note, consumers may find even more generous trade-in offers and promotions continuing well into 2023. The market participants will think of new methods to attract customers to upgrade their plans and to sell more devices, specifically high-end models.

IDC has revised its worldwide smartphone forecast due to a slower market recovery than previously expected. According to the latest Worldwide Quarterly Mobile Phone Tracker forecast, shipments of smartphones will decline by 1.1% in 2023 to 1.19 billion units, down from the 2.8% growth previously forecasted, as market continues to suffer from weak demand and ongoing macroeconomic challenges. Real market recovery is not expected to occur until 2024, when IDC expects 5.9% year-over-year growth followed by low single-digit growth leading to a five-year compound annual growth rate (CAGR)of 2.6%.

Moreover, if the worldwide economic recovery is to be negatively affected by the weakening expectation, the worldwide smartphone market might have a bigger negative impact.

The Group remains prudently optimistic for 2023 due to the ease off of COVID-19 pandemic controls all over the world. An improved consumer outlook, pent up demand from 2022 in large markets, such as China and India. International trade and production activities would resume normal in a large extent.

The Group will introduce more Chinese brands smartphones and the Artificial Intelligence of Things ("AIoT") including low-end products to new customers and new markets such as Russia, Middle Asia, East Asia, South Asia, the Middle East and Africa, for sales expansion. The Group believes that it can work well with this strategy as the Group has the infrastructure to support the growth.

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

It is expected that the year of 2023 would be an important year for growth of the China market and development of the Group for bright future.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately RMB419.5 million or 62.4% to approximately RMB1,092.2 million for the year ended 31 December 2022 from approximately RMB672.7 million for the year ended 31 December 2021. The following table sets forth the breakdown of the Group's revenue by product type:

	For the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Mobile and smart appliances	**1,092,200**	651,059
AI and other equipment	**–**	21,592
	1,092,200	672,651

The revenue of mobile and smart appliances increased mainly due to the Group enhanced the sales of top and famous smartphones in China.

The following table sets out the breakdown of the Group's revenue by geographical regions for the year ended 31 December 2022 and 2021:

	For the year ended 31 December			
	2022		2021	
	RMB'000	**%**	RMB'000	%
Hong Kong	**726,757**	**66.5**	636,416	94.6
The PRC	**365,443**	**33.5**	36,235	5.4
	1,092,200	**100**	672,651	100

The Company explored the new sales of top and famous smartphones in China for the year ended 31 December 2022.

Segment profit (loss) and profit margin

	For the year ended 31 December			
	2022		2021	
	RMB'000	**%**	RMB'000	%
Mobile and smart appliances	**431**	**0.04**	(3,275)	–
AI and other equipment	**(2,406)**	**–**	(2,368)	–

The mobile and smart appliances recognised segment profit of approximately RMB431,000 compared with segment loss of approximately RMB3.3 million for the year ended 31 December 2021. The increase in segment profit was mainly attributable to the Group enhanced the sales of top and famous smartphones in China. The segment loss of AI and other equipment of approximately RMB2.4 million for the year ended 31 December 2022 was attributed by the promotion fee of sales of AI and other equipment.

Other income

Other income mainly represented interest income on bank balances and other services income. The Group's other income decreased from RMB686,000 for the year ended 31 December 2021 to RMB213,000 for the year ended 31 December 2022. The decrease was mainly due to less consultancy services income incurred.

Taxation

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax was made as the Group did not have any assessable profits generated for the year ended 31 December 2022 and 2021.

Trade and other receivables

As at 31 December 2022, the carrying amount of trade and other receivables were approximately RMB3,017,000, representing a decrease of approximately RMB13,098,000 as compared to the corresponding period in 2021 mainly due to notes receivable and a refundable deposit for a potential acquisition was settled during the year 2022.

Prepayments

As at 31 December 2022, the prepayments were approximately RMB566,495,000 which was decreased by RMB7,183,000 as compared with 2021. Prepayments are related to mobile and smart appliances and AI and other equipment.

Inventories

The Group's total inventories decreased by RMB9,787,000 from RMB17,801,000 as at 31 December 2021 to RMB8,014,000 as at 31 December 2022 due to the absence of AI and other equipment. In determining the write down of inventories, the Company's management considered the subsequent selling price and return price.

Trade payable

The Group's trade payable decreased by RMB2,147,000 from RMB10,698,000 as at 31 December 2021 to RMB8,551,000 as at 31 December 2022 due to less purchases of mobile and smart appliances.

Bank loans

The Group's bank loans decreased by RMB5,113,000 from RMB12,279,000 as at 31 December 2021 to RMB7,166,000 as at 31 December 2022 due to less invoice incurred for financing for mobile and smart appliances.

Contract liabilities

The Group's contract liabilities increased by RMB2,372,000 from RMB16,527,000 as at 31 December 2021 to RMB18,899,000 as at 31 December 2022 due to more prepayment from customers for purchases of mobile and smart appliances.

Liquidity and source of funding

As at 31 December 2022, the Group's total cash and bank balances increased by approximately RMB10,931,000 from approximately RMB26,652,000 to approximately RMB37,583,000.

As at 31 December 2022, the Group had unutilised bank facilities related to bank loans of RMB17.74 million. These credit facilities could be drawn down by the Group to finance its operation. Based on the working experience and the communication with the bank, the Board believes that the Group has the ability to renew or secure banking facilities upon maturity.

As at 31 December 2022, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 6.5 compared with 6.6 as at 31 December 2021.

As at 31 December 2022, the Group had bank loans of approximately RMB7,166,000 (2021: approximately RMB12,279,000). On the same date the gearing ratio (calculated based on the bank loans as of the respective dates divided by the net asset as of the respective dates) of the Group was 1.37% as compared with 2.27% as at 31 December 2021.

Foreign exchange exposure

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

Future plans for material investment or capital assets

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

Material acquisitions and disposals

Saved as disclosed in this report, the Group has no material acquisitions and disposals of subsidiaries, associates and joint ventures for the year ended 31 December 2022.

Significant investments

Saved as disclosed in this report, the Company had no significant investment held during the year ended 31 December 2022.

Contingent liabilities and commitments

At the end of the year 2022, the Group did not have any significant contingent liabilities and commitments.

Dividends

No dividend was paid, declared or proposed during the year ended 31 December 2022, nor had any dividend been proposed for the year ended 31 December 2022 (2021: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group had approximately 29 employees. The Group provides competitive remuneration packages to employees with the share option scheme. The Group also provides attractive discretionary bonus payable to those with outstanding performance and contribution to the Group.

CHARGES ON ASSETS

As at 31 December 2022, the Group had no charge of assets (2021: Nil).

Ms. Rong Xiuli

Executive Director and Chairperson

Ms. Rong Xiuli ("Ms. Rong"), aged 59, is the chairperson and executive Director of the Company, a member of the remuneration committee and risk management committee and chairperson of the nomination committee of the Company. Ms. Rong joined the Group in July 2004. Ms. Rong is the founder of the Group and is currently the chairperson of the Group. She gained experience and network in the mobile handset distribution business in the mid-1990s. She worked for 北京市百利豐通訊器材有限責任公司 (Beijing City Bailifeng Communication Apparatus Co., Ltd.) which engaged in the sale and agency service of mobile phones and became the chairperson of this company until 2005. Ms. Rong also cofounded 北京天宇朗通通信設備股份有限公司 (Beijing Tianyu Communication Equipment Co. Ltd.) ("Tianyu") with Mr. Ni Gang (spouse of Ms. Rong) in 2002. She was responsible for sales and marketing, research and development, strategic planning and general management of Tianyu from 2002 to 2008. Ms. Rong was also a director of 北京百納威爾科技有限公司 (Beijing Benywave Technology Co., Ltd.) ("Benywave Technology") since its establishment in 2004 and the chairperson of Benywave Technology from 2008 to 2014. Ms. Rong has ample experience in sales and marketing, distribution, research and development, risk management, personnel and general management. Ms. Rong has approximately 28 years of experience in mobile handset industry. Ms. Rong has extensive knowledge on telecommunications operations and control and deep understanding of the dynamic of telecommunications market in China. Ms. Rong graduated from Hunan University (湖南大學) with a degree in mechanical engineering specialized in internal combustion engine in 1983. Ms. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) (previously known as China-Europe Management Institute (中歐國際管理中心)) in 1993. Ms. Rong is an elder sister of Mr. Rong Shengli, chief executive officer and executive Director of the Company.

As of 31 December 2022, Ms. Rong was interested in certain Shares. Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" in this report for further details.

Mr. Rong Shengli

Executive Director and Chief Executive Officer

Mr. Rong Shengli ("Mr. Rong"), aged 52, is the chief executive officer, executive Director and a member of the risk management committee of the Company and is responsible for the management and strategic development of the Group. Mr. Rong joined the Group in October 2008. Mr. Rong joined 北京百納威爾科技有限公司(Beijing Benywave Technology Co., Ltd.) ("Benywave Technology") in 2008 and was the vice chairman of Benywave Technology from October 2008 to July 2014, where he was responsible for the sales and the strategic planning for its business of development, designing, production management and selling of mobile telecommunication devices on ODM basis and its related components and accessories, targeting global markets excluding the People's Republic of China ("PRC"). Prior to joining Benywave Technology, Mr. Rong served as marketing manager, regional director and general manager of operational business department of Tianyu and its subsidiaries from 2000 to 2008. Mr. Rong did not have any role in Tianyu since 2008. Mr. Rong has approximately 23 years of experience in telecommunications industry and management. Mr. Rong obtained a bachelor's degree from Harbin Engineering University (哈爾濱工程大學) (previously known as Harbin Shipbuilding Engineering Institute (哈爾濱船舶工程學院)) specialized in radio communications in 1992. Mr. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) in 1997. Mr. Rong is a brother of Ms. Rong Xiuli, chairperson and executive Director of the Company.

As of 31 December 2022, Mr. Rong was interested in certain Shares. Please refer to the section headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" in this report for further details.

Mr. Yin Xuquan

Executive Director and President

Mr. Yin Xuquan ("Mr. Yin") aged 58, is an executive Director and president of the Company. Mr. Yin joined the Group in February 2018. Mr. Yin has over 20 years of experience in the telecommunication equipment industry in the People's Republic of China and held various managerial positions in 中國郵電器材集團公司 (China National Postal and Telecommunications Appliances Corporation) during the period from February 2002 to January 2018, where he had accumulated extensive experience in corporate management. Mr. Yin graduated from Heilongjiang University (黑龍江大學) with a bachelor's degree in finance and tax in July 2006, and received an executive master degree of business administration (EMBA) from South China University of Technology (華南理工大學) in July 2011.

Mr. Wong Ho Chun

Executive Director

Mr. Wong Ho Chun ("Mr. Wong"), aged 36, is an executive Director and chairman of risk management committee of the Company. Mr. Wong Joined the Group in February 2019. Mr. Wong has over 10 years of experience in the asset management, fund management and financial services industries in Hong Kong. Mr. Wong was a managing partner of China Fund Group Limited, a boutique fund house in Hong Kong, during the period from 2016 to 2018; a fund manager of Pacific Sun Advisors Limited during the period from 2014 to 2016; and assumed various managerial positions in a few big banks in Hong Kong responsible for providing investment and financial services solutions to clients during the period from 2011 to 2014. Mr. Wong obtained a master degree in Arts with a major in politics from the Durham University in 2011; and a bachelor degree of Business Administration from the City University of Hong Kong in 2006. Mr. Wong is also a Chartered Financial Analyst ("CFA") charter holder.

Mr. Han Xiaojing

Independent non-Executive Director

Mr. Han Xiaojing ("Mr. Han"), aged 68, is an Independent non-Executive Director, chairman of remuneration committee, and a member of audit committee and nomination committee of the Company. Mr. Han joined the Group in June 2019. Mr. Han joined the Group in June 2019. Mr. Han is the founding partner of Commerce & Finance Law Offices (北京市通商律師事務所) and has been an attorney there since May 1992. Mr. Han has also been an independent non-executive director at Sino-Ocean Group Holding Limited (遠洋集團控股有限公司), a real estate company listed on the Stock Exchange (stock code: 3377), Far East Horizon Limited (遠東宏信有限公司), a company listed on the Stock Exchange (stock code: 3360) and Angelalign Technology Inc. (時代天使科技有限公司), a company listed on the Stock Exchange (stock code: 6699), since June 2007, March 2011 and May 2021, respectively. He has also served as a supervisor at Ping An Bank Company Limited (平安銀行股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000001), since October 2020 and served as one of its independent directors from February 2014 to October 2020. Prior to that, he served as an independent director of Beijing Sanju Environmental Protection & New Materials Company Limited (北京三聚環保新材料股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300072), from April 2014 to September 2020, and as an outside director of China National Aviation Fuel Group Limited (中國航空油料集團有限公司), a Chinese state-owned enterprise in 2016 Fortune Global 500 list, since December 2017.

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

Mr. Wong Pong Chun James

Independent non-Executive Director

Mr. Wong Pong Chun James, ("Mr. Wong"), aged 63, is an Independent non- Executive Director, and a member of audit committee, remuneration committee and nomination committee of the Company. Mr. Wong joined the Group in December 2020. Mr. Wong has over 30 years of management experience in production and sales of electronic products. Mr. Wong has been an executive director of Truly International Holdings Limited ("Truly Int"), a company listed on the Main Board of the Stock Exchange (stock code: 732), since July 1991. He is also the chief operating officer of Truly Int. On 16 October 2021, Mr. Wong has been appointed as a Trustee of HKSAR Morrison Scholarships Fund Trust Committee.

Mr. Leung Man Fai

Independent non-Executive Director

Mr. Leung Man Fai, ("Mr. Leung"), aged 65, is an Independent non-Executive Director and chairman of audit committee of the Company. He joined the Group in December 2020. Mr. Leung has over 30 years of working experience in accounting, corporate finance and corporate management. Mr. Leung graduated from Manchester Polytechnic, the United Kingdom with a degree of Bachelor of Arts in Accounting and Finance awarded by the Council for National Academic Awards of the United Kingdom in July 1988. He also obtained a degree of Master of Commerce in Accounting from the University of New South Wales in May 1990. Mr. Leung has been an independent non-executive Director of China Regenerative Medicine International Limited (stock code: 8158), a company listed on the GEM Board of the Stock Exchange since 30 December 2021 and a company secretary of MediNet Group Limited (stock code: 8161), a company listed on the GEM Board of the Stock Exchange since November 2015. Mr. Leung has been a member of the HKICPA since June 1991.

SENIOR MANAGEMENT

Mr. Lam Man Kit

Chief Financial Officer

Mr. Lam Man Kit ("Mr. Lam"), aged 66, has over 44 years of experience in financial management, accounting and corporate finance. Mr. Lam joined the Group in June 2016. Since 1980's Mr. Lam has been serving local and international companies in senior positions such as chief financial officer, consultant, financial controller, regional controller, cost accounting manager and other positions. Prior to joining the Company, Mr. Lam was the chief financial officer of the group of Draper Athena from July 2015 to May 2016, where he was responsible for financial functions for the fund and management companies located in People's Republic of China, the United States of America, Korea and Hong Kong. Before that, he was the chief financial officer of Coolsand Technologies Limited from 2009 to 2015; a consultant of Yeton Venture Limited from 2008 to 2009; the executive director and chief financial officer of Wanji Group Limited from 2001 to 2007; the financial controller of Whirlpool Home Appliance Co. Ltd. from 1995 to 2001; the regional controller of Amphenol East Asia Limited from 1986 to 1995; and he also worked for Fairchild Semiconductor (HK) Ltd. from 1978 to 1986 first as accountant and subsequently as cost accounting manager. Mr. Lam obtained a diploma in accounting and business management from Hong Kong Baptist University in 1978.

Mr. Wang Lei

Vice-president

Mr. Wang Lei ("Mr. Wang"), aged 41, is a vice president of the Group. Mr. Wang has over 19 years of experience in the financial management and sales management in China. Mr. Wang was a vice president of 普泰通信發展有限公司 (Putai Communication Development Limited*) during the period from January to October 2017; a vice president of 中國郵電器材深圳公司 (China Post and Telecommunication Equipment (Shenzhen) Company*) during the period from 2005 to 2017; and a financial controller of 中國郵電器材哈爾濱公司 (China Post and Telecommunication Equipment (Harbin) Company*) during the period from 2003 to 2005.

Mr. Wang obtained a master degree in business administration from University of Wales in 2013 and a bachelor degree in finance and taxation from the 黑龍江大學 (Heilongjiang University*) of China in 2003.

* *for identification purpose only*

The board (the "Board") of directors (the "Directors") of the Company presents their report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL PLACES OF BUSINESS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 35 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group including an analysis using financial key performance indicators during the year ended 31 December 2022 and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the section headed "Management Discussion and Analysis" set out on pages 4 to 10 of this annual report.

The financial risk management objectives and policies of the Group are shown in note 30 to the consolidated financial statements.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. The Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. Further details of the Group's environmental policies and performance disclosed in the section headed "Environment, Social and Governance Report" of this annual report. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year under review, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIP WITH STAKEHOLDERS

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

The Company provides a fair and safe workplace, promotes diversity to its staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions. The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfies the needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner. The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss on page 81 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

During the year ended 31 December 2022 and up to the date of this annual report, there was no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 166 of this annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements of the share capital of the Company during the year ended 31 December 2022 are set out in note 26 to the consolidated financial statements.

SHARE OPTION SCHEME

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

a) Purpose of the Scheme

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

b) Participants of the Scheme

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

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

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

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

d) Maximum entitlement of each participant

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

e) **Time of exercise of options**

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

f) **Subscription price per share**

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

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

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

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

g) **Payment on acceptance of option**

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

h) **Remaining life of the Scheme**

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

As at the date of this report, no option had been granted by the Company pursuant to the Scheme. As at 1 January 2022 and 31 December 2022, the number of options available for grant under the Scheme is 85,000,000 shares.

RESTRICTED SHARE UNIT SCHEME

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

DISTRIBUTABLE RESERVES

At 31 December 2022, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately RMB224.6 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, the Group's top five largest customers accounted for 98.09% (2021: 97.23%) of our revenues and the single largest customer accounted for 52.95% (2021: 84.46%) of our revenues. The Group's top five suppliers accounted for 98.60% (2021: 92.21%) of our cost of revenue and the single largest supplier accounted for 37.22% (2021: 43.80%) of our cost of revenue.

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers during the year ended 31 December 2022.

RELATED PARTY TRANSACTIONS

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

Further details are set out in note 29 to the consolidated financial statements. During the year ended 31 December 2022, none of the related party transactions of the Company fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or is exempted from the disclosure requirements under Chapter 14A of the Listing Rules and the Company has complied with all the disclosure requirements under Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKING

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

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

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

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

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

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

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

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

The Company confirms that each of the Covenantors have complied with the Deed of Non-Competition for the year ended 31 December 2022. In order to ensure the Covenantors have complied with the Deed of Non-Competition, the following actions have been taken:

i. the Company has required each of the Covenantors to give written confirmation to the Company on an annual basis as to whether he/she/it has complied with the Deed of Non-Competition for the year ended 31 December 2022;

ii. each of the Covenantors has provided to the Company such written confirmation (a) in respect of his/her/its compliance with the Deed of Non-Competition for the year ended 31 December 2022; and (b) stating that he/she/it has not been offered or becomes aware of any investment or commercial opportunity directly or indirectly relating to the Overseas Business in any part of the world including but not limited to supply of mobile telecommunications devices on ODM basis in the PRC; and

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

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the annual report, there was no contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholders or any of their subsidiaries subsisted during or at the end of the year ended 31 December 2022, and there was no contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company or any of their subsidiaries subsisted during or at the end of the year ended 31 December 2022.

DIRECTORS

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

Executive Directors

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

Independent Non-executive Directors

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

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 11 to 16 of this annual report.

CONFIRMATION OF INDEPENDENCE

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

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director, other officer and auditor for the time being of the Company shall be entitled to be indemnified out of assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditors or other officer of the Company about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2022 and up to the date of this annual report.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the annual report, no Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisted during or at the end of the year ended 31 December 2022.

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

At 31 December 2022, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions

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

(i) Interest in the Company

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

Notes:

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

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

(3) As at 31 December 2022, the issued share capital is 850,000,000 Shares.

(ii) Interest in associated corporation of the Company

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

Note: As at 31 December 2022, Winmate held more than 50% of the Shares. Therefore, the Company was a subsidiary of Winmate, and Winmate was the holding company and an associated corporation of the Company.

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Share Option Scheme" and "Restricted Share Unit Scheme" above, at no time during the year ended 31 December 2022 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any subsisting arrangement to enable the Directors to acquire such rights in any other body corporate.

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

At 31 December 2022, as far as known to the Directors, the following persons or entities (not being a Director or a chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions

Ordinary shares of HK$0.1 each of the Company

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

Notes:

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

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

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

(4) As at 31 December 2022, the issued share capital is 850,000,000 Shares.

Save as disclosed above, as at 31 December 2022, the Company has not been notified by any person (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2022.

COMPETING INTERESTS

As at 31 December 2022, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2022 and as at the date of this annual report.

EMOLUMENT POLICY

As at 31 December 2022, the Group had a total of 29 employees (2021: 30) The emolument package of the Directors and senior management of the Group is reviewed and recommended by the remuneration committee of the Company (the "Remuneration Committee") on the basis of their merit, qualifications and competence.

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

EQUITY-LINKED AGREEMENTS

Save for the share option scheme adopted by the Company on 9 June 2015 as disclosed under the section headed "Share Option Scheme" above, the Company has not entered into any equity-linked agreements during the year ended 31 December 2022.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the group as at 31 December 2022 are set out in note 23 to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group during the year ended 31 December 2022 are set out in note 11 and note 12 to the consolidated financial statements.

RETIREMENT SCHEME

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employee in the PRC, and operates a Mandatory Provident Fund scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 28 to the consolidated financial statements.

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

CORPORATE GOVERNANCE

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

Details of the corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" on pages 33 to 52 of this annual report.

EVENT AFTER REPORTING PERIOD

There is no significant event subsequent to 31 December 2022.

CHARITABLE DONATIONS

The Group did not make any charitable donations in the year 2022. (2021: Nil)

CHANGES IN INFORMATION OF DIRECTORS

There is no change in Director's biographical details since the date of the Interim Report 2022 and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2022, including the accounting principles and practices adopted by the Group.

AUDITOR

The financial statements for the year ended 31 December 2022 have been audited by Confucius International CPA Limited. SHINEWING (HK) CPA Limited* resigned as auditor of the Company with effect from 29 December 2021, for details of which, please refer to the announcement of the Company dated 29 December 2021. Confucius International CPA Limited was appointed as auditor of the Company with effect from 29 December 2021 to fill the casual vacancy and was re-elected as the auditor of the Company at the annual general meeting of the Company held on 16 June 2022. A resolution will be submitted to the 2023 AGM to re-appoint Confucius International CPA Limited as auditor of the Company.

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

On behalf of the Board

Rong Xiuli
Chairperson

Hong Kong, 31 March 2023

CORPORATE GOVERNANCE PRACTICES

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2022.

BOARD OF DIRECTORS

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

Executive Directors

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

Independent Non-executive Directors

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

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

Biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" on pages 11 to 16 of this annual report. To the best knowledge of the Company, there is no other financial, business, family or other material/ relevant relationship among the Directors.

Chairperson and Chief Executive Officer

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

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

Board Diversity

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

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

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

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

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

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

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

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

As at the date of this annual report, the Board comprises seven Directors, covering different genders and has a broad age distribution and a diverse mix of age, background, knowledge and skills. The current Board had 1 female members out of the total 7 Board members. The Board targets to maintain at least the current level of female representation, with the ultimate goal of achieving gender parity. The Nomination Committee considers that, appropriate balance has been struck among the Board members in terms of gender, skills, experience and perspectives. The Company will also ensure that there is gender diversity when recruiting staff at mid to senior level of the Group so that it will have a pipeline of female senior management and potential successors to the Board in the future.

Nomination Policy

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

1. *Objective*

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

2. *Selection Criteria*

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

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

3. *Nomination Procedures*

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

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

Dividend Policy

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

General power to declare dividends

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

Board's power to pay interim dividends

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

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

Board's power to declare and pay special dividends

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

Dividends to be paid out of profits or reserves

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

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

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

Scrip dividends

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

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

Whistleblowing Policy

The Company has adopted a Whistleblowing Policy ("Whistleblowing Policy"), pursuant to which the Company aims to set up detailed procedures, enabling employees to raise their concerns about any suspected misconduct or malpractice within the Group in confidence and without fear of reprisal or victimisation.

Whistleblowing Policy is designed to encourage the Group's employees to report, in good faith, alleged malpractices or misconduct. Whistle-blowing matters may include, but not confined to:

- Breach of legal or regulatory requirements;
- Criminal offences, breach of civil law and miscarriages of justice;
- Malpractice, impropriety or fraud relating to internal controls, accounting, auditing and financial matters;
- Endangerment of the health and safety of an individual;
- Damage caused to the environment;
- Violation of the rules of conducts applicable within the Group;

- Improper conduct or unethical behavior likely to prejudice the standing of the Group; and

- Deliberate concealment of any of the above.

Procedures

The Whistleblowers should report the allegations or concerns to the Chairman of the Audit Committee by informing the Chairman of the Audit Committee at Hong Kong head office in writing, in a sealed envelope clearly marked "Strictly Private and Confidential – To be Opened by Addressee only" to ensure the confidentiality.

The Whistleblowers are required to put their name to any disclosures they make. Anonymous complaints would usually not be considered. If any other Directors or the chief executive receive a report of fraud, corruption and misconduct, he/she should refer it to the Audit Committee to advise action being taken and if the Chairman of the Audit Committee disagrees with the action being taken, then the matter will be taken over by the Audit Committee. The Group will hold it a serious disciplinary offence for any person to seek to prevent a communication of malpractice concern reaching to the Chief Executive, the Chairman or the Chairman of the Audit Committee, or to impede any investigation which he/she or anyone on his/her behalf may make.

If there is evidence of criminal activity, activity of solicitation and acceptance of advantages or breach of legal and regulatory requirements, the party responsible for the internal investigation may legally be obliged to inform the relevant public or regulatory bodies such as the Hong Kong Police Force, the Independent Commission Against Corruption, the Security and Futures Commission or other bodies as appropriate.

Investigation

The format and the length of an investigation will vary depending on the nature and particular circumstances of each complaint made. The matters raised may:

- be investigated internally;

- be referred to the Police;

- be referred to the external auditor; and/or

- form the subject of an independent inquiry.

The Chairman of the Audit Committee will respond to the complainant in writing wherever reasonably practicable of the concern being received:

- acknowledging that the concern has been received;

- advising whether or not the matter is to be investigated further and if so what the nature of the investigation will be; and giving an estimate of how long the investigation will take to provide a final response; telling the complainant whether any initial enquiries have been made, and whether further investigations will take place, and if not, why not.

The Chairman of the Audit Committee report the investigation report to the Board in a timely manner in a written format. The Chairman of the Audit Committee shall determine whether the complaints should be further reported or discussed by the Board, and seek for legal advice from legal professionals if necessary. All the documentation of investigation will be collected and retained by the company secretary. The Chairman of the Audit Committee should keep track of the status of investigation and resolution and the designated personnel doing it.

The Board will continually review the Whistleblowing Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Whistleblowing Policy at any time, and currently the Chairman of the Audit Committee is designated to investigate the complaint.

Board Independence Evaluation Mechanism

The Board has resolved to adopt a Board Independence Evaluation Mechanism, to ensure independent view and input are available to the Board. The Board Independence Evaluation Mechanism includes various measures to ensure independent views and input are available to the Board.

The Board shall at all times comprise at least three independent non-executive Directors that represent at least one-third of the Board, such that there is always a strong element of independence on the Board which can effectively exercise independent judgment. Each independent non-executive Director is required to provide an annual confirmation of his/her independence to the Company and the nomination committee of the Company is responsible to assess the independence of each independent non-executive Director at least annually.

All the Directors, including the independent non-executive Directors, are given equal opportunity and channels to communicate and express their views to the Board and have separate and independent access to the management of the Group in order to make informed decisions. All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The chairman of the Board will hold meetings with the independent non-executive Directors without the involvement of other Directors at least annually to discuss any issues and concerns. Any Director or his/her associate who has a conflict of interest in a matter to be considered by the Board will be dealt with by a physical Board meeting rather than by written resolutions. Such Director will be required to declare his/her interests before the meeting and abstain from voting and not counted towards the quorum on the relevant resolutions. Independent non-executive Directors who, and whose associates, have no interest in the matter should attend the Board meeting.

The Board has reviewed and considered that the Board Independence Evaluation Mechanism is effective in ensuring that independent views and input are provided to the Board during the year ended 31 December 2022.

Independent Non-executive Directors

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

During the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Confirmation of Independence

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

ROLES AND FUNCTIONS OF THE BOARD AND THE MANAGEMENT

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

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

The Code Provisions B.2.2 of CG Code also states that every director, including those appointed for a specific term, shall be subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company. Each of the Directors of the Company has been appointed for a specific term of 3 years and is subject to retirement by rotation once every three years. Their appointments would be reviewed when they were due for re-election.

BOARD MEETINGS

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

During the year ended 31 December 2022, the attendance records of the Directors at the Board meetings and general meetings of the Company are set out below:

Name of Directors	No. of board meeting attended/ No. of board meetings held	Attendance of annual general meeting held on 16 June 2022
Executive Directors		
Ms. Rong Xiuli	4/4	Yes
Mr. Rong Shengli	4/4	Yes
Mr. Yin Xuquan	4/4	Yes
Mr. Wong Ho Chun	4/4	Yes
Independent Non-Executive Directors		
Mr. Han Xiaojing	4/4	Yes
Mr. Wong Pong Chun James	4/4	Yes
Mr. Leung Man Fai	4/4	Yes

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Pursuant to the Code Provisions C.6.1 of Appendix 14 of the Listing Rules, the primary contact person at the Company is Mr. Lam Man Kit, the chief financial officer of the Company. All Directors may access to the advice and services of the company secretary of the Company (the "Company Secretary"). The Company Secretary regularly updates the Board on governance and regulatory matters.

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

During the year ended 31 December 2022, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

ACCESS TO INFORMATION

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

DIRECTORS INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The Directors are committed to complying with the CG Code C.1.4 on directors' training. All directors have participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility and provided a record of training they received for the financial year ended 31 December 2022 to the Company.

CORPORATE GOVERNANCE FUNCTION

The Audit Committee is responsible for performing the corporate governance duties under the Code Provision D.3.3 as set out below:

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

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

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

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

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

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

BOARD COMMITTEES

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

REMUNERATION COMMITTEE

As at 31 December 2022, the Remuneration Committee comprises two independent non-executive Directors, namely Mr. Han Xiaojing and Mr. Wong Pong Chun James and an executive Director, Ms. Rong Xiuli. Mr. Han Xiaojing is the chairman of the Remuneration Committee. The majority of the members of the Remuneration Committee are independent non-executive Directors.

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

During the year ended 31 December 2022, the Remuneration Committee held two meetings: (i) to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration package of the executive Directors, three independent non-executive Directors and senior management of the Company and other related matter; and (ii) to revise the terms of reference of remuneration committee regarding the extension of responsibility of the remuneration committee in share schemes under Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2022 are disclosed in note 11 and note 29 to the consolidated financial statements.

Attendance of the members of the Remuneration Committee at the meeting(s) held during the year ended 31 December 2022 is set out below:

Members	**No. of meeting(s) attended/No. of meeting(s) held**
Mr. Han Xiaojing *(chairman)*	2/2
Ms. Rong Xiuli	2/2
Mr. Wong Pong Chun James	2/2

NOMINATION COMMITTEE

As at 31 December 2022, the Nomination Committee comprises an executive Director, Ms. Rong Xiuli as the chairperson, and two independent non-executive Directors, Mr. Han Xiaojing and Mr. Wong Pong Chun James as members. The majority of the members of the Nomination Committee are independent non-executive Directors.

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

During the year ended 31 December 2022, the Nomination Committee held one meeting to review the structure, size and diversity of the Board; (ii) assess and confirm the independence of the independent non-executive Directors; (iii) consider the re-appointment of retiring Directors at the annual general meeting of the Company, and (iv) review the Board Diversity Policy of the Company.

Attendance of the members of the Nomination Committee at the meeting held during the year ended 31 December 2022 is set out below:

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

AUDIT COMMITTEE

As at 31 December 2022, the Audit Committee comprises three independent non-executive Directors, namely Mr. Han Xiaojing, Mr. Wong Pong Chun James and Mr. Leung Man Fai. Mr. Leung Man Fai is the chairman of the Audit Committee. The Audit Committee is responsible for reviewing the Group's financial statements, overseeing the Group's financial reporting and internal control procedures, and making recommendations to the Board. None of the members of the Audit Committee is a member of the former or existing auditors of the Company. The Audit Committee has adopted the principles set out in the CG Code. Meetings of the Audit Committee are held at least twice a year.

The Audit Committee has access to and maintains an independent communication with the external auditors and management of the Company to ensure effective information exchange on all relevant financial accounting matters. During the year ended 31 December 2022, the Audit Committee held three meetings to (i) review annual report for the year ended 31 December 2021 and re-appointment of auditor, (ii) review and discuss the unaudited financial statements for the six months ended 30 June 2022, and (iii) review and discuss the engagement letter of the auditor for the financial year 2022 – 2023.

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

Attendance of the members of the Audit Committee at the meetings held during the year ended 31 December 2022 is set out below:

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

RISK MANAGEMENT COMMITTEE

As at 31 December 2022, the Risk Management Committee comprises three executive Directors, Ms. Rong Xiuli, Mr. Rong Shengli and Mr. Wong Ho Chun. Mr. Wong Ho Chun is the chairman of the Risk Management Committee.

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

During the year ended 31 December 2022, the Risk Management Committee held one meeting to review and discuss the internal control, risk management framework, risk assessment and effectiveness of the internal audit function of the Group for the year of 2022.

Attendance of the members of the Risk Management Committee at the meeting held during the year ended 31 December 2022 is set out below:

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

AUDITOR'S REMUNERATION

For the year ended 31 December 2022, the total remuneration in respect of the audit services and other services provided by the external auditor, Confucius International CPA Limited, of the Company were as follows:

Service Category	**Fees paid/payable** RMB
Audit services	1,429,000
Non-audit services	–

The responsibilities of the auditor with respect to the financial reporting are set out in the Independent Auditor's Report on pages 75 to 80 of this annual report. The independence of the external auditor is monitored by the Audit Committee which is primarily responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the six months ended 30 June 2022 and for the year ended 31 December 2022, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The Directors acknowledge their responsibility to prepare the financial statements as set out on page 83. The statement of the external auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 75 to 80 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

During the year ended 31 December 2022, with the assistance of an external professional consultant and collaborating with risk management and internal control personnel, the Group has reviewed an internal audit charter to ensure it has defined the scope, duties and responsibilities as well as reporting protocol of its existing internal audit function. The Group has also conducted an annual risk assessment for the year to identify respective strategic risks, operational risks, financial risks and compliance risks of its major business segments. The identified risks were analysed and evaluated based upon a combination of the significance of consequence and the likelihood of its occurring. The management of the Company is responsible for the coordination, follow-up and monitoring of the risk mitigation plans. All the significant risks and its status of mitigation were reported to the Board and Audit Committee for discussion and approval in a timely manner. Based on the outcome of the risk assessment and following a risk-oriented methodology audit approach, the Company has devised a three-year audit plan that prioritized the significance of the risks identified into annual audit project to assist the Board, the Audit Committee and the Risk Management Committee in assessing the effectiveness of the Group's risk management and internal control systems on an annual basis. The Company has also formulated policies on handling and dissemination of inside information, which set out procedures in handling inside information in a secure and proper manner as well as those aimed to avoid mishandling of inside information of the Group.

The Board has discussed and reviewed its risk management and internal control systems with the review covered the compliance with the code provisions as set out in Appendix 14 to the Listing Rules and the validity of material controls (including financial, operational and compliance controls) at entity and operational levels. Based on the outcome of the review performed by the Audit Committee, Risk Management Committee and administrative management, the Directors considered and were of the opinion that the Group has maintained adequate and effective risk management and internal control systems for the year ended 31 December 2022.

SHAREHOLDERS' RIGHTS

Right to convene extraordinary general meeting

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

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

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

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

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

Procedures for directing shareholders' enquiries to the Board

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

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

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

Having considered the above facts, the Board is of the view that the shareholders' communication policy is effective during the year ended 31 December 2022.

CONSTITUTIONAL DOCUMENTS

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

Scope and Reporting Period

The Board is pleased to present the report on the environmental, social and governance ("ESG") issues (this "Report") in relation to the Group's businesses for the year ended 31 December 2022 in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In full compliance with the disclosure obligation and in accordance to the materiality towards each of the businesses, the Group decided to include all of its major entities and businesses in this Report, i.e. Beijing Benywave Wireless Communication Co., Ltd.* (北京百納威爾無線通訊設備有限公司) ("Beijing Benywave") and Vital Mobile (HK) Limited ("Vital HK"), our major subsidiaries based in Beijing and Hong Kong respectively, in order to reflect our ESG performance in the past year more comprehensively. As compared to the same report for the year ended 31 December 2021 (i.e. previous year), the scope of this report remained the same. Unless otherwise stated, the reporting period is 1 January 2022 to 31 December 2022 (the "Reporting Period"). The Board considers that we have complied with the (a) mandatory disclosure requirements; and (b) "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide for the year ended 31 December 2022.

Reporting principles

This Report was prepared based upon the reporting principles set out in the ESG Reporting Guide, including:

- Materiality: the Company identified and assessed the key areas of ESG matters, then prepared this Report with reference to the opinions and expectations of major stakeholders;

- Quantitative: the calculation, methods, assumptions and conversion factors of each KPI have been disclosed in this Report;

- Balance: This report is disclosed fully through objective facts and standardized data with a view to presenting the performance of ESG matters in an impartial manner;

- Consistency: Unless otherwise stated, this report adopted the consistent methodologies with that in the previous year to calculate the data and disclose the contents, so as to make a meaningful comparison of the Group's performance.

* *for identification purpose only*

Our commitment

The Group is a major smartphone supplier listed in Hong Kong, focusing on provision of products and services including mobile phones, smartphones and related business which encompassed research and development, design, engineering, material sourcing, supply chain management, logistic, and the services activities to the diverse number of wholesalers and resellers. We are principally engaged in (a) sales of mobile phones and smart appliances in Hong Kong; and (b) sales of AI and other equipment in the Beijing of the People's Republic of China ("PRC" or "China"). Over the years, thanks to the continuous support of our shareholders, clients and working partners, the Group has been improving its corporate structure and has shouldered the responsibilities of a corporate citizen by striving to enhance its environmental, social and governance efficiency with a view to contributing to the community.

During the Reporting Period, we adhered to the missions and values of the Group by implementing various internal policies on an ongoing basis based on the principle of sustainable development, striving to reduce the environmental and social impacts caused by our daily operations. We also stepped up efforts in environmental protection, staff training and anti-corruption in order to create values for all our employees, suppliers, shareholders and other stakeholders and strike a balance of interests among different parties.

Governance Structure

The Board is responsible for evaluating and determining the Group's ESG-related risks and delegating authority to the management to implement detailed strategies and plans so as to ensure that good and effective ESG risk management and internal control systems are established and maintained. The Group maintains effective communication with its stakeholders through daily operations in order to understand and identify expectations and concerns about the Group's ESG from its stakeholders, with a view to assessing materiality of various aspects of ESG and to formulating approach and strategies of long-term business development. The management sets the ESG performance indicators of the Group and develops action plan to achieve those targets. The Board reviews the progress of achieving those targets and approves the ESG report on a regularly basis so as to monitor the sustainability performance of the Group continuously.

Stakeholders Engagement and Materiality Assessment

The Group recognized its shareholders, employees, customers, business partners and governments are crucial to the sustainable development of the Group. The Group is committed to maintaining close communication with these major stakeholders with a view to understanding their opinions and expectations on the ESG aspects of the Group and facilitating the sustainable development of the Group.

The following table sets out the communication channels and expectations of the major shareholders of the Group during the Reporting period:

Stakeholders	Communication channels	Aspects of demands
Shareholders and Investors	• Annual general meeting • Announcements • Website	• Return of investment • Fair treatment and interest protection • Transparency of governance
Employees	• Internal emails and notices • Meetings • Training	• Salaries and fringe benefits • Health and safe workplace • Diversified development and training
Customers	• Emails and phones • Meeting and discussion • Promotion and website	• Meet market needs • Services quality • Prompt solution to inquiries and complaints • Business integrity and ethics
Suppliers	• Emails and phones • Meeting and discussion	• Long-term and stable cooperation • Fair treatment • Business integrity and ethics
Governments and Public Authorities	• Regulation inspection • Announcements • Website	• Compliance with rules and regulations • Environmental and social responsibilities

Based on the opinions and expectations of the above major stakeholders and the opinion of the management, the Group has assessed the opportunities and impacts of ESG-related issues and performed the materiality prioritization. The Company has identified the use of resources, occupational health and safety, employee development and training, supply chain management and product responsibility are the material ESG aspects of the Group during the Reporting Period. The result of the materiality assessment has been approved by the Board, which ensures us to adjust our stainability direction and strategy promptly and specifically.

A. ENVIRONMENTAL

A1: Emissions

In light of the nature of the Group's business which mainly is the provision of products and services, the management considered that emissions and wastes from operations had relatively less impacts on the environment and there has been no substantial influence on the assessments and decisions of the Group and/or the stakeholders about the performance of the Group.

Nevertheless, the Group has fully complied with the relevant laws and regulations relating to emissions (i.e. air emissions, greenhouse gas ("GHG") emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes), including but not limited to the Environmental Protection Law (《環境保護法》), Air Pollution Control Ordinance (《空氣污染管制條例》), Noise Control Ordinance (《噪音管制條例》) etc., during the Reporting Period.

In pursuit of environmental sustainability and in compliance with a wide spectrum of environmental laws and regulations stipulated by the PRC state, provincial and municipal governments, Beijing Benywave has developed a set of compliance procedures to monitor and meet the environmental standards and indicators during operations in an effective manner. Those are Control Procedures on Identification and Evaluation of Environmental Factors, Procedures for Pollution Control, Procedures for Energy and Resources Consumption Control, Procedures for Environmental Operational Control, etc.

Meanwhile, Beijing Benywave has evaluated their material impact on the environment and has prepared a List of their Essential Environmental Factors. The List has recognized the potential and significant risk factors for the environment and formulated the relevant control procedures. Beijing Benywave recognized the consumption of electricity is the main environmental factors. The air pollutants emitted by the electricity will cause a level of environmental pollution on the atmosphere and land. Therefore, Beijing Benywave has targeted the performance indicators of the energy and resources consumption as to implement the relevant saving control measures in accordance with the targets.

We advocate employees the awareness of greening proactively through the promotion of reducing and recycling of wastage in life and work. Energy and other resources are consumed efficiently, which reduces environmental pollution on an effective manner and achieves conservation under the requirements of sustainable development of the Group. For instance, light should be turned off before the leaving, extractor fan should be turned on for ventilation while using printer or photocopier, papers should be printed in double-side or the waste paper should be reused, wasting or parking around outlet of water pipe is not allowed, dumping of pollutants and mixed flow of rain and sewage into water pipe is prohibited etc.

In addition, Vital HK has set up a new warehouse facility in Hong Kong as a customer supporting and operating centre for software and product storage distribution. Vital HK does not produce significant air pollutants, chemical waste, sewage and noise during operations. The warehouse advocates recycling of paper and computers, so as to reduce level of environmental pollution from operations.

Performance indicators for air emissions and GHG emissions

The Group does not generate significant air emissions or GHGs in the course of its business operation. Air emissions and GHGs from operations mostly arise from the consumption of purchased electricity, including emissions of nitrogen oxides (NOx), sulphur oxides (SOx), particulate matters (PM) and carbon dioxides (CO_2). The Group did not own or control any stationary or mobile sources that combust fuels, and thus no direct emission of GHGs from the daily operation.

The types and total volume of air emissions of the Group in Beijing and Hong Kong during the Reporting Period were as follows:

Sources	Emission of Nitrogen oxides (NO_x)		Emission of Sulphur oxides (SO_x)		Emission of Particulate Matters (PM)	
	Volume (in grams)		Volume (in grams)		Volume (in grams)	
	Year 2022	Year 2021	Year 2022	Year 2021	Year 2022	Year 2021
Consumption of purchased electricity	29,241	47,798	46,492	76,463	2,674	4,105

The volume of GHG emissions of the Group in Beijing and Hong Kong during the Reporting Period was as follows:

Sources	Emission of Carbon dioxides (CO_2)	
	Volume (in kilograms)	
	Year 2022	Year 2021
Consumption of purchased electricity	15,076	25,389
Processing fresh water and sewage	98	104
Total	15,174	25,493

During the financial year 2022, due to the policy measures of the government to fight against Coronavirus Disease 2019 ("COVID-19") epidemic, the working hours of the Group in office and warehouse has been shortened. We required employees to turn off electric appliances such as lights and air-conditioners during non-working hours, resulted in a reduction in consumption of electricity. As a result, the emission of air and GHGs of the Group has decreased significantly in comparison with the last year.

Performance indicators for wastes

Besides, during the Reporting Period, the Group's main business activities did not generate any hazardous wastes (2021: Nil) but merely produced mild non-hazardous wastes (2021: merely produced), which did not have any significant impact on the environment. As a result, no such disclosure is considered necessary. The Group has being set up a solid waste collection container to collects the hazardous and non-hazardous wastes separately for further handling on a regular basis. If necessary, hazardous or dangerous wastes are disposed by designated and qualified units. Other wastes are sent to designated sanitation facilities for central treatment. In addition, wastewater discharged by the Group is purely domestic wastewater, which is discharged and treated through the municipal sewerage. The Group believes the environmental impact from our wastewater discharged is limited.

The Group strives to improve our environmental performance continuously and gradually reduce air emissions, GHGs emissions and waste produced from the daily operation. The Group understands that the measures to reduce emissions are correlated with the reduction of resources consumption, and thus we have formulated relevant measures. For the measures to reduce the energy resources and its achievement in 2022, please refer to the section "Use of Resources" below.

A2: Use of Resources

The resources consumed in the operation of the Group are mainly electricity and fresh water. During the Reporting Period, the Group has adopted green initiatives and measures to enhance the efficient use of resources. Measures include paper recycling, energy conservation and water saving. For example, we promote double-sided photocopying and paperless office; our employees are encouraged to bring their own cups instead of using disposable paper cups to reduce paper consumption; refillable ball pens and mechanical pencils are used in all our offices to minimize waste; energy-saving guidelines are distributed to employees to ensure that the lighting and air-conditioning systems, computers and other office appliances are all turned off after office hours; in washrooms, sensor taps have been installed and "save water" signs are posted in water-consuming areas.

Performance indicators in the use of resources

To achieve the goals of energy conservation and emission reduction, Beijing Benywave sets indicators for energy and resource consumption each year and communicate them to staff members for implementation and monitoring. Beijing Benywave also periodically reviews the implementation of measures and assesses energy efficiency indicators. At the beginning of each year, it prepares an energy consumption summary for the previous year.

Use of resources in the Group

During the Reporting Period, the Group determined the following energy consumption indicators and reviewed the actual consumption for its business segments in Hong Kong and Beijing. For the purpose of achieving efficiency in use of resources, the Group will step up the measures to reduce energy emission in coming years. Following various measures will be continued to implement in daily operation with a view to earning benefits from energy savings:

Year 2022 Energy Consumption Indicators and Review in the Group				
Energy category	**Consumption indicator**	**Actual consumption**	**Intensity**	**Energy and emission reduction measures**
Water for domestic use	200 tonnes	155 tonnes	5 tonnes/ employee	Renovate water-saving faucets, bathroom spray equipment, and enhance water reuse
Electricity usage in office facilities	30,000 kWh	22,139 kWh	738 kWh/ employee	Suitable illumination, turn off the light before leaving and strengthen the inspections
Paper	15 packs	13 packs	0.43 packs/ employee	Double-sided printing and paperless documents processing

Use of resources in Hong Kong

In relation to above-mentioned use of resources in the Group, purchased electricity is the main resources used by office and warehouse in Hong Kong. During the Reporting Period, consumption of purchased electricity in Hong Kong was as follows:

Consumption of Purchased Electricity in Hong Kong		
Areas of Consumption	**Year 2022 kWh**	**Year 2021 kWh**
Office	5,067	6,033
Warehouse	12,473	25,742
Total	17,540	31,775

As described in the "Emissions" section above, the Group has shortened the working hours in office and warehouse due to the COVID-19 epidemic, thus the consumption of electricity of the Group has been decreased during the Reporting Period.

All water withdrawn for domestic use is from municipal water supplies and thus no issues related to sourcing water for the Group. The water consumption of the Group mainly comes from the office area, including pantry and restrooms. Besides, with respect to the water consumption, the Group considers that the office and warehouse in Hong Kong consumed remoted drinking water during the Reporting Period. The use of drinking eater does not raise significant impact on the environment. As a result, the Group decided not to disclose the amount of water consumption.

In addition, the Group consumed 200 tonnes (2021: 218 tonnes) of packaging materials during the Reporting Period. An approximately 200 grams of paper packaging materials was consumed for every product on average.

A3: The Environment and Natural Resources

As mentioned above, use of energy and resources is the major environmental impact caused by the businesses of the Group. To improve efficient energy consumption, the Group has set annual indicators for energy and resource consumption. All departments are required to strictly achieve the indicators and report the implementation progress on a regular basis for better coordination and monitoring. The above measures allow the Group to ensure proper use of resources and minimize the environmental impact brought about by its business operation.

Apart from the above-mentioned emissions and use of resources, no significant direct impacts on the environment and natural resources caused by the business operation of the Group.

A4: Climate Change

Climate change is a common challenge mankind is facing. Global warming, sea level rise, or more frequent extreme weather events may impact the global business and our daily business operations.

To cope with the climate change challenges, for instance, equipment or facilities may be damaged by super typhoons, and traffic and business operations may be interrupted by rainstorms, the Group has implemented a series of climate change risks response measures in our operations. We have developed working guidelines under extreme weather (such as rainstorms and typhoons) to ensure the safety of our employees while maintaining the business operations. Besides, we have been carrying out regular inspection and maintenance on equipment and facilities to ensure the resilience of the facilities during extreme weather.

The Group realizes the importance of early identification of significant climate-related issues which could impact the Group's operation. The Board and the Audit Committee meet regularly to identify and assess the risks of climate changes and the possible resulting impacts on the Group's operations. The Group will actively study and review the response measures to cope with potential risks of climate changes to ensure the business will be resilient enough with relevant climate risks in the future.

B. SOCIAL

(i) Employment and Labour Practices

B1: Employment

The Group has complied with the applicable laws and regulations relating to employee benefits of the places where it operates. It has also formulated specific policies regarding different aspects and measures for monitoring their implementation. For example, Beijing Benywave has made contribution to the basic pension insurance, medical insurance, unemployment insurance, injury insurance, maternity insurance and housing provident fund for its employees as required by the state, including the Labour Law《勞動法》, Labor Contract Law《勞動合同法》and Social Insurance Law《社會保險法》. Employees are entitled to public holidays, marriage leave, maternity leave, bereavement leave and paid annual leave in accordance with the national requirements. Vital HK has established policies on human resource management in compliance with the Employment Ordinance and Mandatory Provident Fund Schemes Ordinance in Hong Kong. Apart from medical insurance, labour insurance, injury insurance and mandatory provident fund, Vital HK also offers public holidays, annual paid leaves, sick leaves and maternity leaves to employees.

The Group treats all employees equally. It has established clear policies on the rights and benefits of employees such as the Employee Handbook, Administrative Measures for Wages, Benefits and Labour Welfare and Employees' Performance Appraisal Management System. Employees will not be subject to discrimination because of their gender, age, work position and ranking or other personal attributes. We promote diversified development of employees and provide them with competitive compensation and benefits and opportunity for career development based on their individual merits and performance.

Performance indicators in employment

As at the end of the Reporting Period, the Group had employed a total of 29 employees (2021: 30 employees), all of them were full-time workers. During the Reporting Period, 1 employees departed (2021: 1 employee), which represented a turnover rate of 3% (2021: 3%).

During the Reporting Period, the workforce and turnover rate of the Group by gender, age group and geographical region are as follows:

Employee Category		Number of employees (person)		Turnover rate (%)	
		Year 2022	Year 2021	Year 2022	Year 2021
By gender	Male	18	18	5	5
	Female	11	11	0	0
By age	Aged 40 and below	11	14	0	0
	Between 41 and 50	7	4	13	20
	Aged 51 and above	11	11	0	0
By geographical region	China	19	19	5	5
	Hong Kong	10	10	0	0

B2: Health and Safety

As employees are the most valuable assets of the Group, we have always been adhering to the necessary health and safety standards to protect employees from occupational and health risks. The Group is proud of being capable of providing a safe, efficient and comfortable working environment. During the Reporting Period, appropriate arrangements, training and coaching were made by the Group to ensure the good health and safety of our working environment. Also, information on health and safety were made available to employees so as to enhance their awareness of occupational health and safety. As at the end of the Reporting Period, the Group has complied with all the applicable laws and regulations in China and Hong Kong, including the Occupational Safety and Health Ordinance《職業安全及健康條例》, the Work Safety Law of the PRC《中華人民共和國安全生產法》, relating to the provision of a safe working environment and protecting employees from occupational health risks, and has formulated specific policies to these effect.

The Group strives to eliminate or reduce the use of toxic and hazardous materials. Our R&D Department gives careful consideration to the risks concerning health hazards, work injuries and occupational diseases in the course of product design or before making changes to production parameters and processes. When reviewing the design, we assess the possible occupational health and safety risks that may arise from the use or production of products to ensure that the safety of employees will not be posed at risks. Meanwhile, the Group encourages the use of non-toxic and non-hazardous materials and production techniques, and has simplified the manufacturing process to better secure the safety of our employees.

The Group has recognized the potential risk of the fire caused by aging or improper use of the electrical equipment which have significant harm to health and safety of the employees. Therefore, it has put in place high safety standards of equipment and instruments. Overloading or abnormal operation is prohibited for any equipment and instrument. Guidelines for proper use of equipment and instruments are also provided. In addition, these equipment and instruments are regularly maintained, inspected and repaired by qualified technicians. Equipment which is discovered to be obsolete and not up to the safety standards will be upgraded and improved in a systematic way, after detailed arrangements are made to prevent employees from health impacts and work injuries. In addition, the Group conducts inspections of the key fire prevention departments such as direct-fired machine rooms, power distribution room equipment etc. on a regular basis, and organizes annual training in the safety and knowledge of fire protection to prevent work-related accidents and damage to health of employees.

In addition, the Group has put great emphasis on the health and well-being of employees. Therefore, the Group provides them a favourable working environment by maintaining hygienic restaurants and recreational facilities, etc. Every year, the Group arranges medical check-up for its employees, enabling them to pay close attention to their physical and mental health. Our employees are also entitled to medical insurance benefits and other healthcare packages so that their physical and mental health is effectively protected.

In response to COVID-19, the Group has implemented and strengthened the preventive measures of the disease to ensure that employees can work in a healthy and safe environment. The measures include requiring all person to present the health code and take temperature when entering the office, requiring employees to wear masks and wash hands frequently, cleaning and disinfecting the office regularly, requiring employees to take mandatory temperature checks before accessing the office, reducing face-to-face meetings and meeting through video or conference call instead as well as arranging employees to work from home so as to reduce the risk of virus transmission. The Group also encouraged employees to be vaccinated to protect from COVID-19 and for the interest of health in the community.

Performance indicators in health and safety

In the past three years, including the Reporting Period, no case of work-related fatality was reported. Besides, during the Reporting Period, no case of serious injury as a result of work and no days was lost due to work injury. Beijing Benywave sets its annual targets on occupational health and safety such as zero rate of serious injury and 100% (2021: 100%) of employee medical check-up rate, etc. The company also reviews its implementation status and prepares the "Report on Implementation Status of Targets and Indicators" every year to ensure the effectiveness of the Group's prevailing occupational health and safety management system. In the event of an accidental work injury, Beijing Benywave has stipulated that the integrated management department should follow up on the work injury of employees, and review the work accident for improvement in a timely manner.

B3: Development and Training

The continued development of employees underpins the creation of additional value for the business of the Group. Therefore, the Group has developed a series of specific policies to enhance employees' professional knowledge and career skills, and to help them fully unleash their potentials in their respective positions.

To assist new employees to understand our workflows, codes of conduct, organisational structure and staff composition as soon as possible, departments of the Group hold training sessions for new employees. This effectively shortened the time for new employees to get acquainted with their work, and helped them adapt to our working environment and gain a deeper understanding of the Group's values and corporate culture.

Furthermore, to further enhance employees' knowledge and skills, all departments of the Group formulates training plan, arrange training schemes in each year for incumbent staff members, staff members holding special posts and management staff members, in accordance with the company's business development, national regulatory requirements and results of evaluation on employee capabilities. Incumbent staff members are required to attend training as planned annually to enhance and strengthen their professional skills. Staff members holding special posts are required to attend training at least annually about the special work procedures and contents relevant to their posts. In addition, employees of nationally designated special trades, such as electrical workers and drivers, are required to undergo professional training and qualification assessments in order to obtain certificates of competency for the respective posts. On the other hand, national authorized qualification accreditation and consultancy institutions provide training for in-house internal auditors within the management, who shall be certified for employment, whereas accounting staff should attend adequate training and continuous professional development, including financial reporting functions, taxation etc., to retain their qualifications Management staff members will undergo training based on the actual needs of their posts for acquiring new knowledge and new theories of the relevant business operations and keeping abreast of the needs of the industry, so as to enhance governance standards.

To ensure that employees are competent and commensurate with the job requirements of their posts, all departments evaluate and give advice on employee's working capabilities at the end of each year. We strive to provide employees with continuous and sufficient resources for training and development and keep them updated with latest information on market and industry development while improving their performance and allowing self-development in their posts.

Performance indicators in staff development and training

During the Reporting Period, the percentage of employees trained of the Group achieved 100% (2021: 100%) and the average training hours completed per employee was approximately 4.00 hours (2021: 3.73 hours). Training activities covered quality management, special training on corporate targets and indicators, environmental factors, sources of hazards, cyber security training, laws and regulations, finance and taxation, and training on basic quality inspection in sales, so as to achieve an overall improvement in the working capability of our staff.

During the Reporting Period, the percentage of employees trained and average training hours completed per employees of the Group were as follows:

Employee Category		**Percentage of employees trained (%)**		**Average training hours completed per employees (in hours)**	
		Year 2022	**Year 2021**	**Year 2022**	**Year 2021**
By gender	Male	63	63	5.00	4.83
	Female	37	37	2.27	1.82
By employee type	Senior management	23	7	11.43	36.88
	Middle management	7	7	7.50	6.50
	Frontline staff	70	86	1.19	0.96

B4: Labour Standards

During the Reporting Period, the Group has complied with all applicable laws and regulations prohibiting the employment of child and forced labour, including Law of the People's Republic of China on Prevention of Juvenile Delinquency (《中華人民共和國未成年人保護法》), Provisions of the People's Republic of China on the Prohibition of Using Child Labour (《中華人民共和國禁止使用童工規定》) and the Employment of Children Regulations (《僱用兒童規例》). The Group has formulated specific policies to eliminate illegal acts such as hiring child and forced labour. The Group has no tolerance to such acts and is committed to protecting the rights and interests of children. To prevent hiring child labour (i.e. persons under the age of 18) and forced labour, the Group carefully checks the information on identity of its employees and requests them to submit a copy of the relevant identity documents to ensure that the information provided is true and correct before employment of the employees. Any cases of false certificates or identity documents discovered will be taken as fraud. The Group has the right to terminate the labour contract with the relevant employee without assuming any compensation liability. In the event that any child or forced labour is discovered at the operating site, the Group will promptly investigate and implement corrective plans to ensure that the loopholes are plugged, thus preventing the same accident occur again.

The Group has also formulated a Staff Compliance Handbook to make sure the operational management and the behaviour of all employees are complied with the laws, regulations and codes, and ensure compliance in operation. In addition, the Group upholds the philosophy of "work-life balance" and is committed to providing employees with a relaxing and harmonious working environment. During the Reporting Period, the Group implemented a five-day work week regime with 8 hours of work and 1 hour of lunch break per day, and strictly control the overtime hours, so as to allow employees to have adequate rest and to boost staff morale.

No non-compliance with employment of child nor forced labour was arisen during the Reporting Period.

(ii) Operating Practices

B5: Supply Chain Management

The Group believes that quality of our products are directly affected by the materials provided by suppliers. Whether the materials provided by suppliers are eco-friendly and safe will have a significant impact on the environmental benefits and health and safety performance of the production processes and products of the Group. Therefore, the Group has formulated policies to manage and monitor its supply chain and developed specific standards and measures for supplier selection.

The Group has stringent requirements on suppliers of materials. Those involved in the Group's important environmental factors, significant occupational health and safety risks, or those who may cause environmental events or significant occupational health and safety events, are considered as key influential stakeholders and included in the List of Key Influential Stakeholders as approved by the management. Other stakeholders not included in the list are considered as general stakeholders.

The quality assurance department and the relevant responsible departments each keep a copy of the list so that the relevant departments can closely monitor the impact of such stakeholders on the Group and take preventive measures, including (i) controlling and collecting information on material environmental indicators and various activities taking place at production sites by the quality assurance department; (ii) disseminating the relevant information by the purchasing, planning and production department to the above key influential stakeholders, and requiring them to understand the relevant approach and objectives of the Group and provide the required products and on-site services that meet the stipulated requirements; and (iii) strengthening the acceptance inspection of incoming materials and controlling environmental indicators of materials by the quality assurance department, who will timely contact the stakeholders, imposing necessary penalties and taking rectification measures for any identified acts that fail to meet the stipulated requirements.

Performance indicators in supplier engagement and monitoring

As at the end of the Reporting Period, the Group had 10 qualified suppliers (2021: 9), including 9 located in Hong Kong and 1 located in China. The qualified suppliers provided electronic products, including mobile communication devices, accessories, AI and other equipment.

For management and control purposes, suppliers are categorized into three types, namely core, importance and general, by the Group. New suppliers are assessed and selected based on their categories including: (i) examining their quality assurance capabilities or quality assurance systems; (ii) evaluating their delivery performance, post-sales services and contractual obligations; and/or (iii) carrying out trial installation and trial use of samples provided by suppliers. At the end of each year, the purchasing department invites the R&D department and quality assurance department to jointly review the performance of suppliers in terms of three areas, namely quality, delivery and pricing. During the Reporting Period, the Group has implemented the above established supplier management procedures to all suppliers, and all qualified suppliers fulfilled our requirements.

Moreover, for suppliers who have failed in the evaluation but wish to work with us again, they shall be subject to the selection and assessment procedures same as new suppliers so as to ensure suppliers' quality meet our requirements and are monitored.

The Group understands the importance of environmental protection and has incorporated sustainable elements into its procurement decision-making process. With preference given to potential suppliers that supplied products in compliance with the standards under the Restriction of Hazardous Substances Directive adopted by the European Union, so as to reduce the environmental pollution brought by the products. During the selection of products' suppliers, the Group will also give preference to well-known suppliers with reputation in environmental and social aspects, in order to look for suppliers committed to adopting sustainability practices alongside us.

B6: Product Responsibility

In a market with intense competition, customers become increasingly demanding in terms of products and services. The Group understands that it is important to maintain good relationship with customers. Through the continuous interaction with customers, the Group can gain insight on the changing market demand for the products, and provide the products in a way that satisfies the needs and requirements of the customers. The Group strongly believes that the only way to win the trust and support of customers is to create the greatest value for them. Therefore, the Group endeavours to stringently control the quality of its products by fully complying with laws and regulations relating to product responsibility, so as to boost customers' confidence in the products and services of the Group.

The Group has a stringent product responsibility policy and employee compliance manual which shall be strictly enforced by our employees. The departments of the Group regularly provide employees with training on professional knowledge in product responsibility. Through means such as meetings or training, our employees will be able to know which applicable laws and regulations relating to product responsibility shall be complied with during operations, which include the Product Quality Law of the People's Republic of China (《中華人民共和國產品品質法》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》) and 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》), in order to enhance their emphasis on product responsibility. The Group observes 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》) by providing consumers with genuine information on its products or services and forbidding any false or misleading promotion.

Performance indicators in product responsibility

During the Reporting Period, the Group's products are in compliance with the requirements under the Restriction of Hazardous Substances Directive adopted by the European Union national standards. The Group was not aware of any non-compliance incidents relating to product responsibility and there was no product recall due to safety and health reasons.

The Group has set up procedures for dealing with customer complaints and proposed a customer satisfaction indicator for 2022 of 86% (2021: 86%), aiming at addressing any customer complaint and providing quality services to customers in a timely and swift manner. If complaints were received, the staffs of sales department will immediately communicate with customers and corresponding actions will be taken in respond to customers' demands, in order to handle complaint cases in a proper and timely manner. During the Reporting Period, the Group did not receive any complaint in relation to its products or services (2021: 9 complaints). In 2022, the Group achieved service satisfaction of 88% (2021: 88%).

The products of the Group do not involve sensitive or confidential consumer because the business nature is wholesaling. The Group stresses on the importance of protecting its intellectual property rights. It also develops awareness of the confidentiality and strict compliance with confidentiality regulations among employees. Employees are bound by the Group's confidentiality regime and employee compliance manual during their employment. Those holding special positions shall sign a Confidentiality and Non-Compete Contract. By signing the Confidentiality and Non-Compete Contract, which cover confidential matters such as information on product transactions, business strategies and production techniques of products, the Group's intellectual property rights are vigorously protected from harm. Employees on re-designation, no-pay leave, resignation and retirement, external personnel who has finished learning and study and temporary staff members shall return to the Group all technical information, experiment records, materials, samples and prototypes, products, devices and drawings before their departure. They shall also bear long-term obligation of keeping the Group's technical contents and information in confidentiality.

Sparing no effort in product quality management, the Group has developed stringent production operation and quality control processes and provided staff members with clear working guidelines to maintain quality standards of its products. The Group has established the Procedures for Product Monitoring and Measuring Control to regulate the procedures for quality assurance. Our factories perform inspection control for both the work-in-progress and final products. For determining the overall performance of products, user testing on product performance is then carried out and under the supervision and technical support of the quality assurance department to ensure the quality and meet passing rate of products. During the Reporting Period, the first acceptance rate of the products is 98% (2021: 98%), which proved the effectiveness of our product quality management system.

Furthermore, the quality assurance department has coordinated with relevant departments to understand and identify laws, regulations and other requirements applicable to the quality of the Group's products or services, and has formulated specific measures to regularly follow up the status of products and update the information in a timely manner. The department will also disseminate and transmit the latest information to the concerning departments to ensure that the product quality meets all relevant requirements. In the event that products shipped is subjected to recall, sales staffs will contact relevant customers as soon as possible to trace the flow direction of the products on a timely manner to ensure products with quality issues can be quickly recalled from the market, so as to minimize the potential impacts of products with defeats to the public.

B7: Anti-corruption

The Group is committed to maintaining high standards of corporate governance. Anti-corruption and anti-fraud have always been the core philosophy of its internal governance. The Group strives to combat any unlawful acts in the course of business and eradicate any acts of bribery, extortion, fraud and money laundering. During the Reporting Period, the Group has fully complied with the relevant laws and regulations of China and Hong Kong relating to bribery, extortion, fraud and money laundering, including the Prevention of Bribery Ordinance, the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, the Criminal Law of the PRC (《中華人民共和國刑法》), Anti-Unfair Competition Law of the PRC* (《中華人民共和國反不正當競爭法》) etc.

The Group has designated the Audit Committee as the permanent committee for anti-fraud, which shall be responsible for giving guidance on anti-corruption and anti-fraud, and specifically coordinating and implementing the anti-fraud activities across departments and company-wide. In addition, the Group has established a set of sound and effective anti-fraud procedures, including risk assessment, prevention, reporting and investigation of fraud. The Group will provide anti-corruption training to directors and staff based on the needs of positions and business development.

The Group has set up whistleblowing framework to provide channels such as hotline, mailbox and email and/or channels for all employees and other persons to inform, report and disclose actual or suspected cases of corrupt practice in breach of professional ethics. All reports, upon receipt, will be investigated in a comprehensive, impartial and fair manner as far as possible, and handled or rectified as soon as possible. During the Reporting Period, the Group did not receive any reported cases regarding corrupt practices.

During the Reporting Period, no concluded legal cases regarding corruption brought against the Group or its employees.

(iii) Community

B8: Community Investment

Although the Group has not yet formulated any specific community investment work plan, we are fully aware that as a socially responsible corporate citizen, we must strengthen our links with the communities in which we operate and contribute to community building and development. Under the impacts of the ongoing COVID-19 pandemic, the Group did not put extra resources on the community. In the future, the Group will actively participate in welfare activities and encourage employees to actively participate in different types of charitable events, so as to serve our society and promote the robust development of the Group in the long run.

* *for identification purpose only*

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

OPINION

We have audited the consolidated financial statements of Vital Innovations Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 81 to 165, 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 International Financial Reporting Standards (the "IFRSs") issued by the International Accounting Standard Boards (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Valuation of prepayments

Refer to note 19 to the consolidated financial statements.

As at 31 December 2022, the carrying amount of prepayments to suppliers amounted to approximately RMB566,495,000, representing approximately 91% the Group's total assets. It was mainly prepaid to three suppliers for purchase of mobile and smart appliances, and Artificial Intelligence ("AI") and other equipment. The impairment assessment on the prepayments is based on evaluation of the recoverability of the prepayments by considering market demand, expected volume of transactions with the suppliers, ability of the suppliers to refund the prepayments and subsequent utilisation up to the date of this report. No impairment has been recognised in relation to the prepayments to these major suppliers.

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

How our audit addressed the key audit matter

Our procedures in relation to the carrying amount of prepayments were designed to obtain an understanding of the management's internal control and risk assessment process and review the judgements and estimates made by the management on the recoverability of the prepayments to the suppliers as at 31 December 2022.

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

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

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

Confucius International CPA Limited
Certified Public Accountants
Wong Kam Hing
Practising Certificate Number: P05697
Hong Kong, 31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	5	**1,092,200**	672,651
Cost of sales		**(1,087,499)**	(673,137)
Gross profit (loss)		**4,701**	(486)
Other gains (losses), net	6	**703**	1,392
Other income	7	**213**	686
Selling and distribution costs		**(6,676)**	(5,157)
Administrative expenses		**(15,669)**	(16,471)
Finance costs	8	**(829)**	(531)
Loss before tax	9	**(17,557)**	(20,567)
Income tax	10	**–**	–
Loss and total comprehensive expense for the year		**(17,557)**	(20,567)
Loss and total comprehensive expense for the year attributable to:			
Owners of the Company		**(17,547)**	(20,505)
Non-controlling interests		**(10)**	(62)
		(17,557)	(20,567)
Loss per share	13		
Basic and diluted (RMB cents)		**(2.06)**	(2.41)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Equipment	15	**18**	38
Right-of-use assets	27	**1,776**	3,042
		1,794	3,080
Current assets			
Inventories	17	**8,014**	17,801
Trade and other receivables	18	**3,017**	16,115
Prepayments	19	**566,495**	573,678
Pledged bank deposits	20	**3,508**	3,234
Cash and bank balances	21	**37,583**	26,652
		618,617	637,480
Current liabilities			
Trade payables	22	**8,551**	10,698
Bank loans	23	**7,166**	12,279
Accruals and other payables	24	**56,336**	52,779
Contract liabilities	25	**18,899**	16,527
Lease liabilities	27	**1,270**	1,261
Tax liabilities		**3,531**	3,531
		95,753	97,075
Net current assets		**522,864**	540,405
Total assets less current liabilities		**524,658**	543,485

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current liability			
Lease liabilities	27	**563**	1,833
Net assets		**524,095**	541,652
Capital and reserve			
Share capital	26	**67,041**	67,041
Share premium and reserves		**457,111**	474,658
Equity attributable to owners of the Company		**524,152**	541,699
Non-controlling interests		**(57)**	(47)
Total equity		**524,095**	541,652

The consolidated financial statements on pages 81 to 165 were approved and authorised for issue by the board of directors on 31 March 2023 and are signed on its behalf by:

Ms. Rong Xiuli
Director

Mr. Rong Shengli
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note (i))	Other reserve RMB'000 (Note (ii))	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2021	67,041	236,580	275,060	19,075	(35,552)	562,204	15	562,219
Loss and total comprehensive expense for the year	–	–	–	–	(20,505)	(20,505)	(62)	(20,567)
At 31 December 2021 and 1 January 2022	67,041	236,580	275,060	19,075	(56,057)	541,699	(47)	541,652
Loss and total comprehensive expense for the year	–	–	–	–	(17,547)	(17,547)	(10)	(17,557)
At 31 December 2022	**67,041**	**236,580**	**275,060**	**19,075**	**(73,604)**	**524,152**	**(57)**	**524,095**

Notes:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Operating activities			
Loss for the year		**(17,557)**	(20,567)
Adjustments for:			
Finance costs	8	**829**	531
Depreciation of equipment	15	**27**	31
Depreciation of right-of-use assets	27	**1,266**	936
Interest income	7	**(62)**	(69)
Foreign exchange gains, net		**(388)**	(1,436)
Write-off of trade and other payables	6	**(84)**	–
Gain on derecognition of lease liabilities		**–**	(108)
Impairment loss recognised on other receivables		**1**	–
Loss on termination of a lease		**–**	159
Operating cash flows before movements in working capital		**(15,968)**	(20,523)
Decrease in inventories		**9,787**	9,299
Decrease (increase) in trade and other receivables		**13,097**	(9,909)
Decrease in prepayments		**7,183**	45,091
Decrease in finance lease receivable		**–**	38
Decrease in trade payables		**(2,136)**	(19,233)
Increase (decrease) in accrual and other payables		**1,127**	(425)
Increase (decrease) in contract liabilities		**2,372**	(27,147)
Cash generated from (used in) operating activities		**15,462**	(22,809)
Income tax paid		**–**	–
Net cash from (used in) operating activities		**15,462**	(22,809)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Investing activities			
Withdrawal of pledged bank deposits		**13,751**	12,897
Interests income received		**62**	66
Placement of pledged bank deposits		**(14,025)**	(12,826)
Purchase of equipment		**(7)**	–
Net cash (used in) from investing activities		**(219)**	137
Financing activities	31		
Payment of lease liabilities		**(1,261)**	(917)
Repayment of bank loans		**(110,976)**	(93,957)
New bank loans raised		**103,511**	86,325
Interest paid		**(771)**	(463)
Interest paid on lease payment		**(80)**	(70)
Advance from an independent third party		**2,525**	3,085
Net cash used in financing activities		**(7,052)**	(5,997)
Net increase (decrease) in cash and cash equivalents		**8,191**	(28,669)
Effect of foreign exchange rate changes		**2,740**	952
Cash and cash equivalents at 1 January		**26,652**	54,369
Cash and cash equivalents at 31 December – represented by cash and bank balances		**37,583**	26,652

1. GENERAL INFORMATION

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

On 26 June 2015, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report. The Company is principally engaged in investment holding and the principal activities of its subsidiaries (together with the Company collectively referred to as the "Group") are set out in note 35.

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

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018 – 2020

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

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contributions of Assets between an Investor and its Associate or Joint Venture[2]
Amendments o IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to lAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to lAS 8	Definition of Accounting Estimates[1]
Amendments to lAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective date to be determined.
3 Effective for annual periods beginning on or after 1 January 2024.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

Control is achieved when the Company:

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Revenue from contracts with customers

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

Contract liabilities

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

The Group recognised revenue from the following major sources:

- Sales of mobile and smart appliances
- Sales AI and other equipment

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Sales of goods

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

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

Short-term leases and leases of low-value assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

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

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

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

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

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

Refundable rental deposits

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

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

The lease payments include:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Government grants

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

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

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other gains (losses), net".

Retirement benefits costs and termination benefits

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

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment

Equity-settled share-based payment transactions

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment

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

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

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

Impairment on equipment and right-of-use assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Provisions

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

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

Cash and cash equivalents

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

Investment in a subsidiary

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

Amortised cost and interest income

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

Impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

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

Derecognition of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

Related parties

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

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

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

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

(v) the entity has a post-employment benefit plan for the benefit of employees of the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Critical judgements in applying accounting policies

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

Determination of functional currency

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

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

Principal versus agent consideration (principal)

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

During the year ended 31 December 2022, the Group recognised revenue relating to trading of mobile and smart appliances, and AI and other equipment amounted to approximately RMB1,092,200,000.

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

Key sources of estimation uncertainty

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

Estimated allowance for inventories

The management performs review periodically on the net realisable value ("NRV") of inventories and makes allowance for inventories based on the review. The identification of slow moving and obsolete inventories requires the use of judgement and estimates on the conditions and saleability of the inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the NRV is lower than the cost of inventories. In determining the NRV, the management considers the subsequent selling prices less the estimated costs necessary to make the sale and the return of inventories. As at 31 December 2022, there was no write down of inventories.

Estimated impairment on prepayments

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

As at 31 December 2022, the carrying amount of prepayments is approximately RMB566,495,000 (2021: RMB573,678,000). No impairment is provided for the year ended 31 December 2022.

Income tax

As at 31 December 2022, no deferred tax asset has been recognised on the tax losses and deductible temporary differences of approximately RMB156,015,000 in aggregate (2021: RMB109,527,000) due to the unpredictability of future profit streams. The realisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are less or more than expected, or changes in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

5. REVENUE AND SEGMENT INFORMATION

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

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers within the scope of IFRS 15 are recognised at a point in time as follows:		
Mobile and smart appliances	**1,092,200**	651,059
AI and other equipment	**–**	21,592
	1,092,200	672,651

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

During the years ended 31 December 2022 and 2021, the Group has two reportable and operating segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

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

– Trading of AI and other equipment

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

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

	Trading of mobile and smart appliances		Trading of AI and others equipment		Total	
	2022	2021	**2022**	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue	**1,092,200**	651,059	**–**	21,592	**1,092,200**	672,651
Segment profit (loss)	**431**	(3,275)	**(2,406)**	(2,368)	**(1,975)**	(5,643)
Other gains (losses), net					**703**	1,392
Other income					**213**	686
Finance costs					**(829)**	(531)
Unallocated corporate expenses					**(15,669)**	(16,471)
Loss before tax					**(17,557)**	(20,567)

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

There were no inter-segment sales in both years.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	2022 RMB'000	2021 RMB'000
Segment assets		
Trading of mobile and smart appliances	**442,086**	619,321
Trading of AI and other equipment	**171,751**	9,567
Unallocated	**6,574**	11,672
Total assets	**620,411**	640,560
Segment liabilities		
Trading of mobile and smart appliances	**23,274**	24,914
Trading of AI and other equipment	**1,543**	1,666
Unallocated	**71,499**	72,328
Total liabilities	**96,316**	98,908

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

- all assets are allocated to operating segments other than certain other receivables, pledged bank deposits and certain bank balances and cash as these assets are managed on a group basis; and

- all liabilities are allocated to operating segments other than certain trade payables, certain accruals and other payables, tax liabilities and bank loans.

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

	Trading of mobile and smart appliances RMB'000	**Trading of AI and other equipment RMB'000**	**Unallocated RMB'000**	**Total RMB'000**
Amounts included in the measurement of segments profit or loss or segment assets				
Year ended 31 December 2022				
Additions to non-current assets	**7**	**–**	**–**	**7**
Depreciation of equipment	**23**	**4**	**–**	**27**
Depreciation of right-of-use assets	**1,194**	**72**	**–**	**1,266**

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

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

	Trading of mobile and smart appliances RMB'000	**Trading of AI and other equipment RMB'000**	**Total RMB'000**
Year ended 31 December 2022			
Hong Kong	**726,757**	**–**	**726,757**
The People's Republic of China (the" PRC")	**365,443**	**–**	**365,443**
Total	**1,092,200**	**–**	**1,092,200**

	Trading of mobile and smart appliances RMB'000	Trading of AI and other equipment RMB'000	Total RMB'000
Year ended 31 December 2021			
Hong Kong	636,416	–	636,416
The PRC	14,643	21,592	36,235
Total	651,059	21,592	672,651

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

5. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers

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

	Percentage of the Group's total sales	2022 RMB'000	2021 RMB'000
Customer A[1]	**53.0% (2021: 84.5%)**	**578,347**	568,112
Customer B[1]	**30.6% (2021: Nil)**	**334,410**	–
		912,757	568,112

No other single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2022 and 2021.

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

6. OTHER GAINS (LOSSES), NET

	2022 RMB'000	2021 RMB'000
Foreign exchange gains, net	**388**	1,436
Government grants (note)	**206**	–
Write-off of trade and other payables	**84**	–
Gain on derecognition of lease liabilities	**–**	108
Loss on termination of a lease	**–**	(159)
Others	**25**	7
	703	1,392

Note: During the year ended 31 December 2022, the Group recognised government grants of approximately RMB206,000 in respect of COVID-19 related subsidies which was related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region ("HKSAR") under the Anti-Epidemic Fund.

7. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Interest income on pledged bank deposits	**3**	4
Interest income on finance leases	**–**	3
Interest income on bank balances	**59**	62
	62	69
Services income	**148**	400
Others	**3**	217
	213	686

8. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Effective interest expenses on bank loans	**749**	461
Effective interest expenses on lease liabilities	**80**	70
	829	531

9. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2022 RMB'000	2021 RMB'000
Directors' emoluments (note 11)	**3,379**	3,453
Other staff		
– salaries and other allowances	**7,865**	7,650
– retirement benefits schemes contributions (excluding directors)	**338**	361
Total staff costs	**11,582**	11,464
Auditor's remuneration – audit services	**1,429**	1,308
Cost of inventories recognised as an expense	**1,087,499**	673,137
Depreciation of equipment	**27**	31
Depreciation of right-of-use assets	**1,266**	936
Expenses related to short-term leases	**910**	1,418
Impairment losses on other receivables	**1**	–

10. INCOME TAX

No provision for Hong Kong Profits Tax and PRC Enterprise Income Tax was made as the Group did not have any assessable profits generated for the years ended 31 December 2022 and 2021.

The Company's subsidiaries incorporated in Hong Kong is subject to Hong Kong Profits Tax at 16.5% (2021: 16.5%).

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries are 25% from 1 January 2008 onwards.

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

	2022 **RMB'000**	2021 RMB'000
Loss before tax	**(17,557)**	(20,567)
Tax at applicable income tax rate	**(5,709)**	(3,257)
Tax effect of expenses not deductible for tax purposes	**494**	1,899
Tax effect of income not taxable for tax purpose	**(4,503)**	–
Tax effect of super deduction on research and development expense	**(284)**	(138)
Tax effect of tax losses not recognised	**10,040**	1,792
Utilisation of tax losses previously not recognised	**–**	(304)
Others	**(38)**	8
Tax charge for the year	**–**	–

Details of the deferred taxation are set out in note 16.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2021: seven) directors, including the chief executive, were as follows:

For the year ended 31 December 2022

	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits schemes contributions RMB'000	Total emoluments RMB'000
Emoluments paid or payable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings:				
Executive directors				
Ms. Rong	–	240	–	240
Mr. Rong Shengli	–	724	74	798
Mr. Yin Xuquan	–	720	52	772
Mr. Wong Ho Chun	–	621	15	636
Independent non-executive directors				
Mr. Han Xiaojing	311	–	–	311
Mr. Wong Pong Chun James	311	–	–	311
Mr. Leung Man Fai	311	–	–	311
Total	933	2,305	141	3,379

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

For the year ended 31 December 2021

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

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

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

No directors waived or agreed to waive any emoluments during the years ended 31 December 2022 and 2021.

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office for the years ended 31 December 2022 and 2021.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2021: Three), details of whose remunerations are set out in note 11 above. The emoluments of the remaining three (2021: two) individuals are as follows:

	2022 **RMB'000**	2021 RMB'000
Salaries and allowances	**1,952**	1,249
Retirement benefits scheme contributions	**80**	61
	2,032	1,310

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

	Number of individuals	
	2022	2021
Nil to Hong Kong Dollar ("HK$") 1,000,000 (equivalent to nil to approximately RMB893,000)	**3**	2

For the year ended 31 December 2022 and 2021, no remuneration were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no arrangement under which any of the five highest paid individuals waived or agreed to waive any of the remuneration.

13. LOSS PER SHARE

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

	2022	2021
	RMB'000	RMB'000
Loss:		
Loss for the purposes of basic and diluted loss per share, representing loss for the year attributable to owners of the Company	**(17,547)**	(20,505)

	2022	2021
	'000	'000
Number of shares:		
Number of ordinary shares for the purposes of basic and diluted loss per share calculation	**850,000**	850,000

Diluted loss per share is equal to basic loss per share as there were no dilutive potential ordinary shares in issue during the years ended 31 December 2022 and 2021.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

15. EQUIPMENT

	RMB'000
COST	
At 1 January 2021, 31 December 2021 and 1 January 2022	367
Additions	7
At 31 December 2022	374
DEPRECIATION	
At 1 January 2021	298
Provided for the year	31
At 31 December 2021 and 1 January 2022	329
Provided for the year	27
At 31 December 2022	356
CARRYING VALUES	
At 31 December 2022	18
At 31 December 2021	38

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

16. DEFERRED TAX

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

	2022 RMB'000	2021 RMB'000
Tax losses	**92,668**	46,181
Other deductible temporary differences	**63,347**	63,346
	156,015	109,527

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

As at 31 December 2022, the Group has unused tax losses of approximately RMB53,332,000 (2021: RMB41,013,000) which arose in Hong Kong and are available for offset against future profits that may be carried forward indefinitely. The remaining unrecognised tax losses of approximately RMB39,336,000 (2021: RMB5,168,000) will expire as follows:

	2022 RMB'000	2021 RMB'000
2024	**4,976**	5,000
2025	**43**	43
2026	**125**	125
2027	**34,192**	–
	39,336	5,168

17. INVENTORIES

	2022 RMB'000	2021 RMB'000
Finished goods	**8,014**	17,801

The management has performed a NRV assessment as at 31 December 2022 with reference to the subsequent selling prices less the estimated costs necessary to make the sale. The directors of the Company considered that there was no impairment of inventories required for the years ended 31 December 2022 and 2021.

18. TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**40**	2,500
Less: allowance for credit losses	**–**	–
	40	2,500
Other receivables		
– Notes receivable (Note a)	**–**	5,711
– Refundable deposit for a potential acquisition (Note b)	**–**	5,000
– Other PRC tax receivables	**2,039**	2,057
– Others (Note c)	**967**	875
	3,006	13,643
Less: allowance for credit losses	**(29)**	(28)
	2,977	13,615
Total trade and other receivables	**3,017**	16,115

18. TRADE AND OTHER RECEIVABLES (Continued)

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

	2022	2021
	RMB'000	RMB'000
Within 30 days	**–**	2,500
31-60 days	**–**	–
61-90 days	**–**	–
More than 90 days	**40**	–
	40	2,500

The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

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

Note a: The balance represented a bank's acceptance bill which had been fully settled during the year 2022.

Note b: On 16 December 2021, the Company entered into a non-legally binding memorandum of understanding ("MOU") with a vendor in relation to a possible acquisition by the Company (or its designated nominee) of a 70% to 90% equity interest in a company incorporated in the PRC from the vendor. On 22 December 2021, the Company paid a sum of RMB5,000,000, being a refundable earnest money to the vendor in accordance with the MOU. On 31 May 2022, the Company and the vendor entered into an agreement to terminate the MOU and the supplemental MOU. The deposit has been fully refunded during the year 2022.

Note c: As at 31 December 2022, approximately RMB61,320 included in others was paid to a related party, Beijing Tianlang Huigu Technology Co., Ltd* (北京天朗慧谷科技有限公司) for premises rental deposit.

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

18. TRADE AND OTHER RECEIVABLES (Continued)

The following tables show reconciliation of allowance for credit losses that has been recognised for other receivables:

	12-month ECL	
	2022	2021
	RMB'000	RMB'000
As at 1 January	**28**	28
Allowance for credit losses	**1**	–
As at 31 December	**29**	28

Further details on the Group's credit policy, ECL assessment and credit risk arising from trade and other receivables are set out in note 30.

19. PREPAYMENTS

	2022	2021
	RMB'000	RMB'000
Prepayments to suppliers of:		
– AI and other equipment (note (a))	**153,000**	–
– Mobile and smart appliances (note (b))	**413,495**	573,678
	566,495	573,678

19. PREPAYMENTS (Continued)

Notes:

(a) As at 31 December 2021, the Group had no prepayments for purchase of AI and other equipment.

As at 31 December 2022, the Group had made prepayments to an independent supplier to purchase AI and other equipment. Due to the impact of Covid-19 pandemic outbreak in year 2022 affecting supply orders in year 2022 and delivery arrangements, the Group and the supplier entered into an agreement for the refund of part of the prepayment amounting to RMB152,020,000 by the supplier. The prepayment of RMB152,020,000 has been refunded to the Group in March 2023.

(b) As at 31 December 2022, the Group had made prepayments mainly to two independent suppliers to purchase mobile and smart appliances for trading business in a total of approximately RMB388,040,000. Due to the impact of Covid-19 pandemic outbreak in year 2022 affecting supply orders in year 2022 and delivery arrangements, the Group entered into an agreement for the refund of the prepayment with two independent suppliers. The prepayment amounting to RMB388,040,000 has been fully refunded to the Group in March 2023.

Subsequent to the year ended 31 December 2022, approximately RMB20,776,000 of the prepayments for mobile and smart appliances were recognised as purchases upon the receipt of the goods from the supplier.

20. PLEDGED BANK DEPOSITS

The pledged bank deposits mainly represent deposits pledged for bills payable and bank loans. As at 31 December 2022, the pledged bank deposits carry interest at 0.10% (2021: 0.10% to 0.15%) per annum.

	2022	2021
	RMB'000	RMB'000
Pledged bank deposits	**3,508**	3,234

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

	2022	2021
	RMB'000	RMB'000
United States Dollars ("USD")	**3,508**	3,208

21. CASH AND BANK BALANCES

	2022	2021
	RMB'000	RMB'000
Cash and bank balances	**37,583**	26,652

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

	2022	2021
	RMB'000	RMB'000
USD	**18,629**	25,007
Hong Kong Dollars ("HKD")	**483**	510
Euro ("EUR")	**65**	65

Bank balances carry interest at market rates which ranged from nil to 0.63% (2021: nil to 0.30%) per annum.

As at 31 December 2022, the bank balances denominated in RMB, amounting to approximately RMB18,406,000 (2021: RMB1,070,000) were deposited with banks in the PRC. The remittance of such balances out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

22. TRADE PAYABLES

	2022	2021
	RMB'000	RMB'000
Trade payables	8,551	10,698

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

	2022	2021
	RMB'000	RMB'000
Within 90 days	–	2,196
91 to 180 days	–	–
181 days to 1 year	–	–
Over 1 year	8,551	8,502
Total	8,551	10,698

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

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

	2022	2021
	RMB'000	RMB'000
USD	703	2,839

23. BANK LOANS

	2022 **RMB'000**	2021 RMB'000
Secured bank loans:		
– Trust receipt loans (Note a)	**3,154**	12,279
– Government guarantee instalment bank loan (Note b)	**4,012**	–
	7,166	12,279

As at 31 December 2022 and 2021, the Group's secured bank loans were repayable in accordance with scheduled repayment dates as follows:

	2022 **RMB'000**	2021 RMB'000
Carrying amount repayable:		
Within one year	**3,154**	12,279
Carrying amount of secured bank loans that contain a repayable on demand clause (shown under current liabilities) but repayable:		
Within one year	**840**	–
More than one year but not exceeding two years	**869**	–
More than two years but not exceeding five years	**2,303**	–
	7,166	12,279

23. BANK LOANS (Continued)

Note (a):

The terms and conditions of the trust receipt loans are set out below:

As at 31 December 2022	**Maturity date**	**Carrying amount RMB'000**
Variable-rate:		
Secured bank loan I	13 February 2023	**3,154**

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

The secured loans I carried interest at the United States Prime Rate, which is ranging from 3.25% to 7.50% (31 December 2021: 3.25%) per annum.

The secured loans I was jointly secured by (i) the properties owned by an individual, an independent third party to the Group, (ii) personal guarantee provided by a director of the Company; and (iii) a pledged bank deposit of approximately USD504,000 (equivalent to approximately RMB3,508,000) (31 December 2021: (i) the properties owned by an individual, an independent third party to the Group; (ii) personal guarantee provided by a director of the Company; and (iii) a pledged bank deposit of approximately USD503,000 (equivalent to approximately RMB3,208,000)).

23. BANK LOANS (Continued)

Note (b):

The terms and conditions of the government guarantee instalment bank loan ("secured instalment bank loan") are set out below:

As at 31 December 2022	**Carrying amount RMB'000**
Variable-rate bank loan:	
Secured instalment bank loan I	**4,012**

The last instalment of the secured instalment bank loan is on 6 June 2027.

The secured instalment bank loan carries interest at 2.5% per annum below the Hong Kong Prime Rate.

The secured bank loan is secured by the guarantees provided by the director of the Company and the government of HKSAR under SME Financing Guarantee Scheme.

As at 31 December 2021, the Group had no secured instalment bank loan.

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

	2022 RMB'000	2021 RMB'000
USD	**3,154**	12,279
HKD	**4,012**	–

24. ACCRUALS AND OTHER PAYABLES

	2022 **RMB'000**	2021 RMB'000
Royalties payable (note (a))	**13,210**	13,210
Staff costs payable	**1,208**	1,549
Payable for insurance premium and freights	**942**	942
Interest payable	**21**	43
Dividends payable	**252**	252
Other PRC tax payables	**13,605**	13,099
Others payable (note (b))	**27,098**	23,684
	56,336	52,779

Notes:

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

(b) The others payable includes (i) accrued professional fees and deposits received from ODM business amounting to approximately RMB14,918,000 (2021: RMB13,693,000); and (ii) amount due to an independent third party of approximately USD1,463,000 (equivalent to approximately RMB10,187,000) (2021: USD1,202,000 (equivalent to approximately RMB7,662,000)) which is unsecured, non-interest bearing and repayable on demand.

24. ACCRUALS AND OTHER PAYABLES (Continued)

Included in accruals and other payables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entities are not out below:

	2022	2021
	RMB'000	RMB'000
USD	**24,922**	21,202
HKD	**2,515**	2,791

25. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2022 and 2021 and is expected to be recognised within one year:

	2022	2021
	RMB'000	RMB'000
Sales of goods	**18,899**	16,527

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

25. CONTRACT LIABILITIES (Continued)

Movements in contract liabilities

	2022 RMB'000	2021 RMB'000
At 1 January	**16,527**	43,674
Decrease in contract liabilities as a result of recognised as revenue during the year	**(12,527)**	(43,614)
Decrease in contract liabilities as result of termination of contracts	**(4,000)**	(60)
Increase in contract liabilities as a result of billing in advance of sales of goods	**18,899**	16,527
At 31 December	**18,899**	16,527

The changes in contract liabilities in 2022 were mainly due to the continuous increase from the customers' orders during the year.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

When the Group receives deposit from customers in relation to sales of goods, contract liabilities will arise at the start of the relevant contracts, until the revenue recognised on such relevant contracts exceeds the amount of the deposit.

26. SHARE CAPITAL

	Number of shares		Share Capital	
	2022 '000	2021 '000	2022 RMB'000	2021 RMB'000
Issued and fully paid:				
Ordinary shares of HK$0.1 each	**850,000**	850,000	**67,041**	67,041

27. LEASES

(i) Right-of-use assets

	Properties RMB'000	Equipment RMB'000	Warehouse RMB'000	Total RMB'000
At 31 December 2022				
Carrying amount	574	40	1,162	1,776
At 31 December 2021				
Carrying amount	1,104	112	1,826	3,042
For the year ended 31 December 2022				
Depreciation charge	530	72	664	1,266
For the year ended 31 December 2021				
Depreciation charge	698	72	166	936

	Year ended 31/12/2022 RMB'000	Year ended 31/12/2021 RMB'000
Expense relating to short-term leases	**910**	1,418
Total cash outflow for leases	**2,251**	2,405
Additions to right-of-use assets	**–**	3,581
Derecognition of right-of-use assets	**–**	191

27. LEASES (Continued)

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

The Group has lease contracts for properties, equipment and warehouse for its operations. The leases terms are generally a period of 3 years (2021: 3 years).

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

No additions to the right-of-use assets for the year ended 31 December 2022. In year 2021, there were additions to the right-of-use assets amounted to approximately RMB3,581,000 are due to new leases of office premises and warehouse. On the other hand, the right-of-use assets for the year ended 31 December 2021 amounted to approximately RMB191,000 is derecognised due to lease contracts of office premises were terminated.

27. LEASES (Continued)

(ii) Lease liabilities

	2022 RMB'000	2021 RMB'000
Lease liabilities payables:		
Within one year	**1,270**	1,261
Within a period of more than one year but not exceeding two years	**563**	1,270
Within a period of more than two years but not exceeding five years	**–**	563
	1,833	3,094
Less: Amount due for settlement with 12 months shown under current liabilities	**(1,270)**	(1,261)
Amount due for settlement after 12 months	**563**	1,833

The weighted average incremental borrowing rates applied to lease liabilities from 3.25% to 4.75% (2021: from 3.25% to 4.75%).

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

	2022 RMB'000	2021 RMB'000
HKD	**1,790**	2,978

28. RETIREMENT BENEFITS CONTRIBUTIONS

The Group operates the MPF Scheme for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contributions per employee is HK$1,500 per month. During the year ended 31 December 2022, the retirement benefits schemes contributions arising from the MPF Scheme charged to profit or loss were approximately RMB127,000 (2021: RMB125,000).

The PRC employees of the Group are members of a state-managed retirement benefits plan operated by the government of the PRC. The PRC subsidiaries of the Company are required to contribute a specified percentage of payroll costs to the retirement benefits plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefits plan is to make the specified contributions. During the year ended 31 December 2022, the retirement benefits contributions charged to profit or loss were approximately RMB353,000 (2021: RMB371,000).

During the years ended 31 December 2022 and 2021, there were no contributions forfeited by the Group on behalf of its employees who leave the plan prior to vesting fully in such contribution, nor had there been any utilisation of such forfeited contributions to reduce future contributions. As at 31 December 2022 and 2021, no forfeited contributions were available for utilisation by the Group to reduce the existing level of contributions.

29. RELATED PARTY TRANSACTIONS

(a) Name and relationship

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

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

(b) Related party transactions

	2022	2021
	RMB'000	RMB'000
Premises rental expenses charged by Tianlang (Note (ii))	**134**	154
Equipment rental expenses charged by Benywave Technology (Note (i))	**69**	69
Management expenses charged by Zhuoyue Tianhe (Note (ii))	**60**	60
Consultancy service income received from Tianyu Operation (Note (iii))	**148**	400

29. RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions (Continued)

Notes:

(i) During the year ended 31 December 2020, the Group entered into a three-year lease in respect of certain equipment from Benywave Technology. The amount of rent payable by the Group under the lease is approximately RMB6,400 per month. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of approximately RMB216,000 respectively. During the year ended 31 December 2022, the Group has made lease payment of approximately RMB69,000 (2021: RMB69,000) to Benywave Technology.

(ii) In November 2020, the Group entered into a tripartite agreement to cancel the previous agreement with Rongheng and entered a new agreement with Tianlang. During the year ended 31 December 2022, the Group has made the lease payment of approximately RMB134,000 (2021: RMB154,000) to Tianlang where the lease is accounted for as a short-term lease. In addition, the Group made the management fee payment of approximately RMB60,000 (2021: RMB60,000) to Zhuoyue Tianhe during the year ended 31 December 2022.

(iii) In 2021, the Group entered into an agreement with Tianyu operation related to consultancy service. The Group has provided professional advices for the plan, operation, promotion and marketing of the projects of Tianyu Operation. During the year ended 31 December 2022, the consultancy service income received from Tianyu operation is RMB400,000 (2021: RMB400,000).

(c) Remuneration of key management personnel of the Group

	2022 **RMB'000**	2021 RMB'000
Short term employee benefits	**4,536**	3,964
Post-employment benefits	**203**	150
	4,739	4,114

(d) Guarantee

As at 31 December 2022, a director of the Company has provided a personal guarantee as part of the security for the bank loans of approximately RMB7,166,000 (2021: RMB12,279,000).

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets at amortised cost		
Trade and other receivables	**978**	14,058
Pledged bank deposits	**3,508**	3,234
Cash and bank balances	**37,583**	26,652
	42,069	43,944
Financial liabilities at amortised cost		
Trade payables	**8,551**	10,698
Accruals and other payables	**56,336**	52,779
Bank loans	**7,166**	12,279
Lease liabilities	**1,833**	3,094
	73,886	78,850

Financial risk management objectives and policies

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

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

Currency risk

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

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

	Assets		**Liabilities**	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**22,137**	28,215	**28,780**	36,320
HKD	**483**	510	**8,317**	6,113
EUR	**65**	65	**–**	–

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Sensitivity analysis

The following tables detail the Group's sensitivity to a 5% (2021: 5%) increase and decrease in RMB against USD, HKD and EUR. 5% represents management's assessment of the reasonably possible change in the foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2021: 5%) change in foreign currency rate. A positive number below indicates a decrease in post-tax loss where RMB strengthens by 5% (2021: 5%) against the relevant currency. For a 5% (2021: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss for the year, and the amounts below would be negative.

	2022 **RMB'000**	2021 RMB'000
USD	**277**	338
HKD	**327**	234
EUR	**(3)**	(3)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to pledged bank deposits and bank loans with variable interest rate (note 23). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances, United States Prime Rate arising from the Group's United States dollar denominated loan and Hong Kong Prime Rate arising from the Group's Hong Kong dollar denominated loan.

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

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

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

	2022		2021	
	Effective interest rate (%)	**RMB'000**	Effective interest rate (%)	RMB'000
Bank deposits and bank loans				
Pledged bank deposits	**0.10**	**3,508**	0.10 to 0.15	3,234
Cash and bank balances	**Nil to 0.63**	**37,583**	Nil to 0.30	26,652
		41,091		29,886
Bank loans	**4.83**	**(7,166)**	3.25	(12,279)
		33,925		17,607

Sensitivity analysis

At 31 December 2022, it is estimated that a general increase of 100 basis points (2021: 100 basis points) in interest rates, with all other variables held constant, would decrease the Group's loss for the year by approximately RMB339,000 (2021: RMB176,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the pledged bank deposits, cash and bank balances and bank loans in existence at that date. The 100 basis point (2021: 100 basis points) increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

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

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

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

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

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

During the year ended 31 December 2022 and 2021, no loss allowances were recognised on the trade receivables.

The Group writes off trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. As at 31 December 2022, no trade receivables (2021: Nil) was written off.

In respect of prepayments, the management assesses the credit quality of each suppliers based on their background information, financial position, past experience and relevant factors. In this regard, the directors consider that the Group's credit risk of the suppliers is limited.

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

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

	2022 **RMB'000**	2021 RMB'000
At 1 January	**28**	28
Impairment losses recognised	**1**	–
At 31 December	**29**	28

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

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

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

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

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

For the year ended 31 December 2022:

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Prepayments	Performing	12-month ECL	**566,495**	**–**	**566,495**
Trade receivables	Performing	Lifetime ECL (simplified approach)	**40**	**–**	**40**
Other receivables	Performing	12-month ECL	**967**	**(29)**	**938**
Pledged bank deposits	Performing	12-month ECL	**3,508**	**–**	**3,508**
Cash and bank balances	Performing	12-month ECL	**37,583**	**–**	**37,583**
				(29)	

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

For the year ended 31 December 2021:

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Prepayments	Performing	12-months ECL	573,678	–	573,678
Trade receivables	Performing	Lifetime ECL (simplified approach)	2,500	–	2,500
Other receivables	Performing	12-month ECL	11,586	(28)	11,558
Pledged bank deposits	Performing	12-month ECL	3,234	–	3,234
Cash and bank balances	Performing	12-month ECL	26,652	–	26,652
				(28)	

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights to demand for early repayment.

	Weighted average effective interest rate	On demand or less than one year	More than one year and within two years	More than two years and within five years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2022						
Non-derivatives financial liabilities						
Trade payables	–	8,551	–	–	8,551	8,551
Accruals and other payables	–	56,336	–	–	56,336	56,336
Bank loans	4.83	7,512	–	–	7,512	7,166
Lease liabilities	3.25-4.75	1,307	569	–	1,876	1,833
		73,706	569	–	74,275	73,886

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Weighted average effective interest rate	On demand or less than one year	More than one year and within two years	More than two years and within five years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2021						
Non-derivatives financial liabilities						
Trade payables	–	10,698	–	–	10,698	10,698
Accruals and other payables	–	52,779	–	–	52,779	52,779
Bank loans	3.25	12,299	–	–	12,299	12,279
Lease liabilities		1,341	1,307	569	3,217	3,094
		77,117	1,307	569	78,993	78,850

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. As at 31 December 2022, the aggregate carrying amounts of these bank loans amounted to RMB4,012,000 (2021: Nil). Taking into account the Group's financial position, the management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank loans will be repaid five years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Maturity Analysis - Bank loans with a repayment on demand clause based on scheduled repayments

	Less than 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash outflows RMB'000	Carrying amount RMB'000
31 December 2022	**962**	**963**	**2,404**	**4,329**	**4,012**
31 December 2021	–	–	–	–	–

Fair value of financial instruments

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

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank loans RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Lease liabilities RMB'000	Amount due to an independent third party RMB'000	Total RMB'000
At 1 January 2022	12,279	43	252	3,094	7,662	23,330
Changes from financing cash flows:						
New bank loans raised	103,511	–	–	–	–	103,511
Repayment of bank loans	(110,976)	–	–	–	–	(110,976)
Raised	–	–	–	–	2,525	2,525
Interest paid	–	(771)	–	–	–	(771)
Payment of lease liabilities	–	–	–	(1,261)	–	(1,261)
Interest paid on lease payment	–	–	–	(80)	–	(80)
Total changes from financing cash flows	(7,465)	(771)	–	(1,341)	2,525	(7,052)
Other changes:						
Interest cost incurred	–	749	–	80	–	829
Exchange differences	2,352	–	–	–	–	2,352
Total other changes	2,352	749	–	80	–	3,181
At 31 December 2022	7,166	21	252	1,833	10,187	19,459

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

	Bank loans RMB'000	Interest payable RMB'000	Dividend payable RMB'000	Lease liabilities RMB'000	Amount due to an independent third party RMB'000	Total RMB'000
At 1 January 2021	20,395	45	252	729	4,577	25,998
Changes from financing cash flows:						
New bank loans raised	86,325	–	–	–	–	86,325
Repayment of bank loans	(93,957)	–	–	–	–	(93,957)
Raised	–	–	–	–	3,085	3,085
Interest paid	–	(463)	–	–	–	(463)
Payment of lease liabilities	–	–	–	(917)	–	(917)
Interest paid on lease payment	–	–	–	(70)	–	(70)
Total changes from financing cash flows	(7,632)	(463)	–	(987)	3,085	(5,997)
Other changes:						
Interest cost incurred	–	461	–	70	–	531
New lease arrangement	–	–	–	3,581	–	3,581
Derecognition on lease liabilities	–	–	–	(299)	–	(299)
Exchange differences	(484)	–	–	–	–	(484)
Total other changes	(484)	461	–	3,352	–	3,329
At 31 December 2021	12,279	43	252	3,094	7,662	23,330

32. CAPITAL RISK MANAGEMENT

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

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

33. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2022** **RMB'000**	2021 RMB'000
Non-current asset			
Investments in a subsidiary		**–***	–*
Current assets			
Amounts due from subsidiaries	(i)	**295,789**	268,735
Cash and bank balances		**368**	260
		296,157	268,995
Current liabilities			
Other payables		**252**	252
Amounts due to subsidiaries	(i)	**4,289**	4,289
		4,541	4,541
Net current assets		**291,616**	264,454
Net assets		**291,616**	264,454
Capital and reserves			
Share capital		**67,041**	67,041
Reserves	(ii)	**224,575**	197,413
Total equity		**291,616**	264,454

* The balance is less than RMB1,000.

Approved and authorised for issue by the board of directors on 31 March 2023 and are signed on its behalf by:

Ms. Rong Xiuli
Director

Mr. Rong Shengli
Director

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

Notes:

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

(ii) Movements in reserves:

	RMB'000
At 1 January 2021	206,089
Loss and total comprehensive expense for the year	(8,676)
At 31 December 2021 and 1 January 2022	197,413
Profit and total comprehensive income for the year	27,162
At 31 December 2022	224,575

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2022, the Group had no non-cash transaction.

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

35. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company				Principal activities
			2022		2021		
			Direct	Indirect	Direct	Indirect	
			%	%	%	%	
Vital Mobile Limited	BVI, limited liability company	USD1	**100**	**–**	100	–	Investment holding
Vital Mobile (HK) Limited	Hong Kong, limited liability company	HK$1	**–**	**100**	–	100	Selling mobile and smart appliances
Benywave Wireless	PRC, wholly foreign-owned enterprise	RMB100,000,000	**–**	**100**	–	100	Selling mobile and smart appliances, and AI and other equipment
Kerr Unit Inc	The United States of America, limited liability company	USD300,000	**–**	**100**	–	100	Developing new sales channels in the USA
Vital Mobile D.O.O.	Slovenia, limited liability company	EUR10,000	**–**	**100**	–	100	Inactive
Vital Financial Holdings Limited	Hong Kong, limited liability company	HK$1	**–**	**100**	–	100	Inactive
Greater Bay Vital Limited* 灣際維太科技(東莞)有限公司	PRC, wholly foreign-owned enterprise	RMB10,000,000	**–**	**51**	–	51	Inactive

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

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

None of the subsidiaries had issued any debt securities at the end of the years ended 31 December 2022 and 2021.

36. SHARE-BASED PAYMENT TRANSACTIONS

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

All shares were fully vested in 2018 and no additional shares were granted and outstanding for the years ended 31 December 2021 and 2022 in relation to the RSU Scheme granted by the Company.

FIVE YEARS FINANCIAL SUMMARY

	For the year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS					
Revenue	**1,092,200**	672,651	881,137	815,940	911,448
(Loss) profit before tax	**(17,557)**	(20,567)	(97,610)	(5,574)	14,549
Income tax expense	**–**	–	–	–	–
(Loss) profit and total comprehensive (expense) income for the year attributable to equity holders of the Company	**(17,557)**	(20,567)	(97,610)	(5,574)	14,549

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**620,411**	640,560	710,600	750,467	881,167
Total liabilities	**(96,316)**	(98,908)	(148,381)	(90,638)	(140,764)
Net assets	**524,095**	541,652	562,219	659,829	740,403
Equity attributable to owners of the Company	**524,152**	541,699	562,204	659,829	740,403

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