# 研祥智能科技股份有限公司

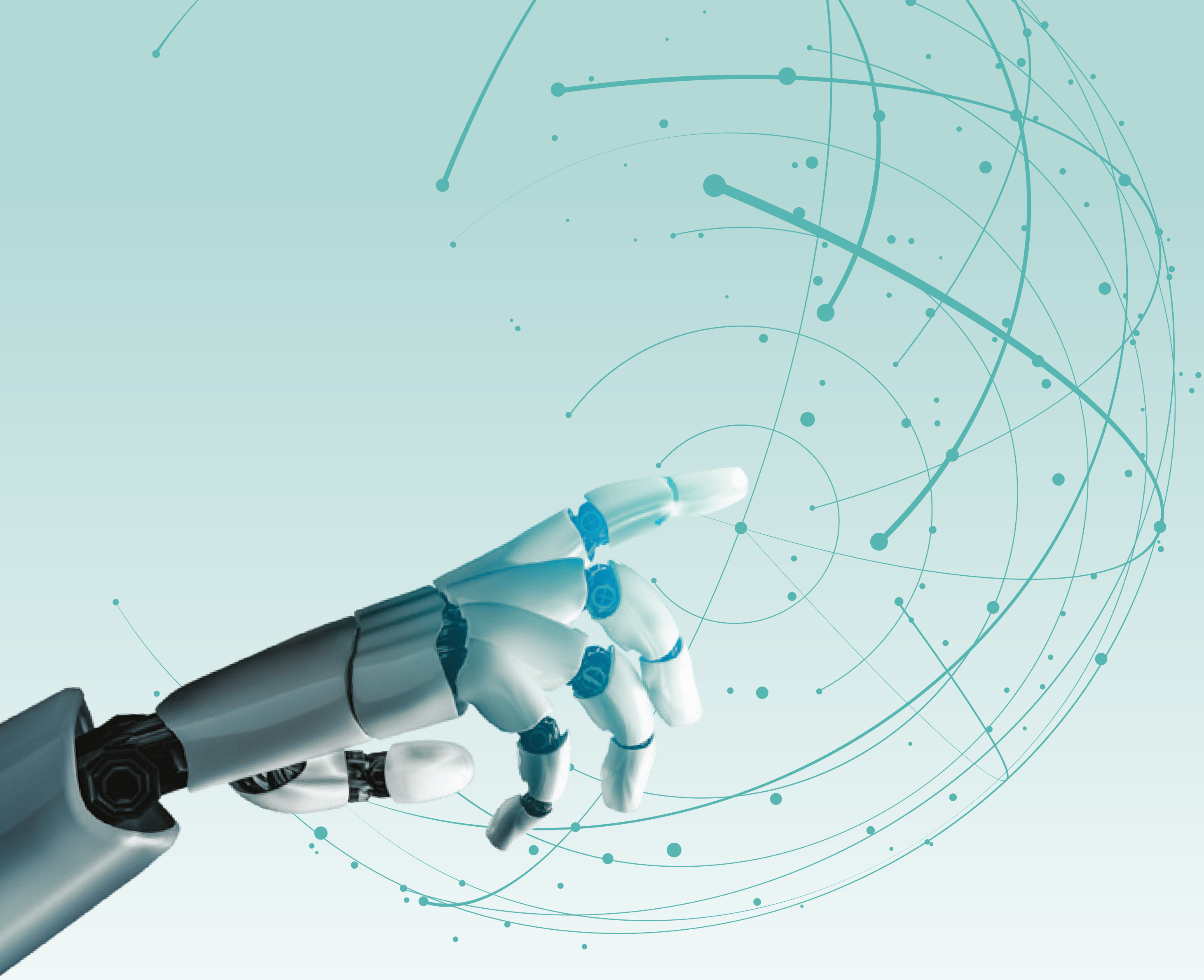
# EVOC Intelligent Technology Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code : 2308

ANNUAL REPORT 2021

*for identification purpose only



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**

Chen Zhi Lie *(Chairman)*
Geng Wen Qiang

**Independent non-executive directors**

Xu Hai Hong
Wu Yan Nan
Li Qian

## SUPERVISORS

Zhan Guo Nian *(Chairperson)*
Pu Jing
Liu Jia Yi

## COMPLIANCE OFFICER

Geng Wen Qiang

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Tsui Chun Kuen CPA, FAIA

## AUTHORIZED REPRESENTATIVES

Chen Zhi Lie
Tsui Chun Kuen CPA, FAIA

## MEMBERS OF THE AUDIT COMMITTEE

Xu Hai Hong *(Chairperson)*
Wu Yan Nan
Li Qian

## MEMBERS OF THE REMUNERATION AND REVIEW COMMITTEE

Wu Yan Nan *(Chairperson)*
Xu Hai Hong
Geng Wen Qiang

## MEMBERS OF THE NOMINATION COMMITTEE

Chen Zhi Lie *(Chairperson)*
Wu Yan Nan
Li Qian

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

EVOC Technology Building
No. 31, Gaoxinzhongsi Avenue
Nanshan District, Shenzhen
PRC

## LIAISON OFFICE IN HONG KONG

Room 508A
5/F, Harbour Crystal Centre
100 Granville Road
Tsim Sha Tsui
Kowloon
Hong Kong

## H SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## AUDITOR

BDO Limited Certified Public Accountants
25/F, Wing On Centre
111 Connaught Road Central
Hong Kong

## PRINCIPAL BANKER

Industrial and Commercial Bank of China
Shenzhen Branch
F4–8, 1st Floor
Tianji Building
Tian An Industrial Area
Shenzhen
PRC

## LEGAL ADVISER TO THE COMPANY

Commerce & Finance Law Offices
23/F, Building A
CASC Plaza, Haide
3rd Road Nanshan District
Shenzhen
PRC

## COMPANY HOMEPAGE/WEBSITE

http://www.evoc.com

## STOCK CODE

2308

# CORPORATE BACKGROUND

EVOC Intelligent Technology Company Limited was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the PRC's Company Law. The Company's H shares were listed on the GEM (the "GEM") of the Stock Exchange of Hong Kong on 10 October 2003. The Company transferred from the GEM to the Main Board (the "Main Board") of the Stock Exchange on 12 July 2010. The Company and its subsidiaries ("Group") are principally engaged in the research, development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories, and development of properties in the PRC. As at 31 December 2021, the registered capital of the Company amounted to approximate RMB123.3 million with the Group's total assets to approximate RMB8.4 billion.

The Group is one of the leading domestic manufacturers of special computer products in the PRC, offers over 400 special computer products. Special computer is a computer system built to allow users to adopt hardware and software applications to perform a dedicated function or a range of dedicated functions such as data processing, generating, interpreting and executing control signals, etc. and is embedded into a product, device or a larger system. Special computer products manufactured and distributed by the Group are widely applied in, among other, telecommunication, industrial, military, electricity generation, video frequency control, transportation, Internet, commerce and finance industries.

The Group has established an extensive distribution network through its subsidiaries, branches, offices, representative offices and about sales agents spread out across various provinces and autonomous regions in the PRC. Over 5,600 customers of the Group include authorized distribution agents, system integrators, construction and building surveillance agents, software developers and IT manufacturers in the PRC.

# CHAIRMAN'S STATEMENT

## TO OUR SHAREHOLDERS,

On behalf of the Board of directors, I am pleased to present the annual report of EVOC Intelligent Technology Company Limited and its subsidiaries ("our Company" or the "Company") for the year ended 31 December 2021 (the "Year") to our shareholders.

The Company has been engaged in research, development, manufacture and distribution of special computer products since 1993 with a 28-year history of continuous operation. The Company's shares were listed on the GEM of the Stock Exchange of Hong Kong on 10 October 2003. The Company transferred to the Main Board of the Stock Exchange of Hong Kong on 12 July 2010 with the stock code 02308.HK.

## BUSINESS REVIEW

During the period under review, the Company continued to engage in the research, development, manufacture and distribution of special computer products in the PRC. We dedicated our efforts to enhancing and transforming the traditional industries in the PRC. Meanwhile, the Company was also engaged in assembling and trading of electronic products and accessories and development of properties in the PRC.

As a result of the continued impact of the COVID-19 epidemic and the continued tightness of the raw materials market, the PRC as well as the global economies were affected to varying degrees, with slowed down production and operating activities, significantly declined fixed asset investment and reduced business orders from certain domestic customers, directly resulting in the continued reduction in demand in the special computer market. In particular, the global shortage of semiconductor devices resulted in delayed delivery or even suspension of supply of some chip materials with soaring supply prices. In addition, the stockpiles had been greatly increased in response to material shortages, which significantly increased the Company's operating costs. At the same time, in order to cope with the recurring COVID-19 epidemic, the Company had to constantly invest in epidemic prevention materials and epidemic prevention work, which also contributed to the increased production and operation costs of the Company.

As the China-US conflict continues tighter export restrictions on certain semiconductor devices and industrial design software originated from the US have intensified the risks of availability and the rising costs of imported raw materials for special computers. With the increase of uncertainty in the international trade and diplomatic environment, there has been a lack of incentive to upgrade fixed assets, which reduced the market demand for special computer products, resulting in a serious impact on both internal and external sales of the products.

Based on the assessment and judgment of the development of the COVID-19 epidemic and the changing domestic and international market environment, the Company timely adjusted its market expectation and business strategies. On the one hand, the Company continued to implement the "payment before delivery" sales principle to enhance the capital turnover and reduce transaction risks, and on the other hand provided appropriate accounts receivable collection periods to certain quality customers with capital difficulties, in order to tide over the difficulties together with the customers. We continued to adjust and optimise our channels of distributor structure to reduce the pressure on internal delivery and inventory, and provided distributors with guaranteed supply of goods to ensure that our customers receive better service and delivery schedules. For the research and development of new products and projects, we have ensured that appropriate investments were provided to maintain the normal update and iteration of our existing product series. We have maintained caution on the investments in new projects of new industries and new sectors, which were subject to careful scrutiny. We continued to focus on the market and customers of Mainland China, and remained cautious in investing in overseas markets.

### Development of Science and Technology Industrial Park and Other Properties

In 2021, the gross sales revenue from the construction of the Science and Technology Industrial Park amounted to approximately RMB200 million for the year. Section A1 of Wuxi SHIOC International Outsourcing Base ("Wuxi") has a completed gross floor area of approximately 177,000 sq.m., which consists of 12 office and commercial buildings that are currently in sale. Section A2 of Wuxi has a completed gross floor area of approximately 132,000 sq.m., which consists of 84 office buildings that are currently in sale. Phase 2 of Homer's International Garden at Dianshan Lake in Kunshan was fully completed in 2019 with a gross floor area of approximately 56,000 sq.m. The first phase of the Nantong EVOC Science and Technology Park project was fully completed in 2019 with a gross floor area of approximately 72,800 sq.m., which consists of 39 office buildings. Huaqiao EVOC International Finance Center in Kunshan is an office building, and is expected to be fully completed in 2023.

### Revenue from Leased Properties

As at the end of 2021, the total leased area of the Group reached 258,300 sq.m., achieving total property rental revenue of approximately RMB128 million for the whole year. Due to the continuous and ongoing impact of Covid-19 pandemic, the overall average leased area has dropped significantly; the EVOC Technology Building in Hangzhou was completed in 2017, and a gross floor area of approximately 66,000 sq.m. was rented other than a portion for self-use. EVOC High Profile Office Park in Guangming Hi-tech Park of Shenzhen was completed in early 2014 with a gross floor area of approximately 245,000 sq.m. The project includes one research and development office building, two buildings of plants and one furnished staff dormitory building with an approximate gross floor area of 58,000 sq.m., 92,000 sq.m. and 55,000 sq.m. respectively, as well as an underground parking lot occupying approximately 40,000 sq.m.; 80% of the park was leased. Shenzhen EVOC Technology Building was completed in 2007 with a gross floor area of approximately 62,000 sq.m. Other than keeping a small portion for self-use, all the units in the building were rented. For Section A1 of Wuxi SHIOC International Outsourcing Base ("Wuxi"), offices with a gross floor area of approximately 50,000 sq.m. and furnished commercial lots with a gross floor area of approximately 54,000 sq.m. were available for lease. Phases 1 and 2 of Homer's International Garden at Dianshan Lake in Kunshan have a gross floor area of approximately 47,000 sq.m. for office use, and part of it was rented.

## RESULT OF THE YEAR

In 2021, the Group recorded a turnover of approximately RMB1,296.2 million, representing an decrease of approximately 16.1% as compared with last year, of which sales of special computer products was approximately RMB813.8 million, sales of mobile phones and accessories was approximately RMB282.6 million, and sales of properties was approximately RMB199.9 million. Profit attributable to owners of the Company was approximately RMB166.2 million. Profit margin attributable to owners was approximate 12.8%.

### Research & Development and Products

The Company was committed to independent innovation and continued to develop the research and applications of hardware and software for special computers. We strengthened the efforts in software development by adapting the software to existing hardware products, and launched more competitive software-hardware integrated products as total solutions. The company cooperates with a number of domestic scientific research institutions and application units to conduct in-depth cooperation and carry out research, development and industrialization of industrial Internet intelligent node products, and launch targeted system solution.

### Marketing and Brands

The Company continued to adopt the diversified sales models including direct sales, distribution, online sales and offline sales, making full use of direct sales customers and distributor resources, combining the advantages of online and offline. Marketing and communication efforts were fully integrated by means of, among others, distributor meetings, seminars and industry media partnerships, search engine bidding, information flow promotion and self-media operation.

Consistently aiming for professional development, the Company focused on building brand assets and the reputation for quality. It continuously won the trust of its customers by quickly responding to their needs, by providing a full range of product support and services through branches, official websites, customer service hotlines, WeChat public accounts, e-marketplaces and other channels.

### Outlook and Prospect

At present, the global pandemic is still ongoing, and the China-US conflict shows no sign of abating. Coupled with the Russia-Ukraine crisis, the extremely volatile international environment continues to exacerbate the shortage and price increase of semiconductors and related raw materials, bringing greater risks and challenges to the Chinese and global economies. The rising cost of raw materials has led to continuous cost increases in China's manufacturing industry, reducing the international competitive advantage of its manufacturing industry, which in turn causes unfavourable impact on the sales of special computers. The shortage and rising prices of foreign semiconductor devices have also had a significant impact on the continued production and technological innovation of special computers. With the rising prices of basic materials supplies and changes in demographic structure, the management of raw material costs and labour costs for special computers has become more demanding.

Looking forward, as the Chinese and global economies will remain under the influence of supply shortages and the "new normal" of epidemics, the Company will make prudent decisions and seize the opportunity to implement its business plans in accordance to the changing business environment with new opportunities and challenges. The Company will continue to focus on the research and development of special computer products and accelerate the application and innovation of intelligent software and hardware products.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our deepest appreciation to the management and staff of the Company for their dedication and hard work, as well as to our customers for their continued patronage, shareholders for their trust and support, and to all those who have been supporting the Company. We remain cautiously optimistic about the future, and will keep a watchful eye on the development of the market as we continue to make every effort to develop our business to drive continuous growth.

**Chen Zhi Lie**
*Chairman*

Shenzhen, the PRC, 27 April 2022

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Turnover

For the year ended 31 December 2021, the Group reported a total revenue of approximate RMB1,296.2 million (2020: approximate RMB1,544.5 million) representing an approximate decrease of 16.1%, analysed by product categories as follows:

| | **2021 RMB'000 (Unaudited)** | 2020 RMB'000 (Audited) | Change % |
|---|---|---|---|
| Turnover | | | |
| Sales of special computer products | **813,785** | 650,511 | +25.1 |
| Sales of mobile phones and accessories | **282,552** | 668,913 | −57.8 |
| Sales of properties | **199,855** | 225,112 | −11.2 |
| | **1,296,192** | 1,544,536 | −16.1 |

### *Cost of Sales and Gross Profit Margin*

Cost of sales for the period was approximately RMB729.3 million, representing a decrease of approximately 25.3% as compared to previous year.

Gross profit margin for the period increased by approximate 6.9% to approximate 43.7%.

The increase of gross profit margin was mainly due to sales increase and improvement of profit margin in special computer products.

### *Other Income*

Other income for the period decreased from approximate RMB343.6 million in 2020 to approximate RMB295.5 million in 2021. It was due to decrease of rental income and government subsidies.

### *Selling & Distribution Costs*

The selling and distribution costs decreased by 5.4% from approximate RMB48.1 million in 2020 to approximate RMB45.5 million in 2021. It was due to the decrease in headcount of sales team.

### *Administrative Expenses*

The administrative expenses increased by 12.5% from approximate RMB135.7 million in 2020 to approximate RMB152.7 million in 2021. It was mainly due to the increase of wages and welfare costs of administrative staff.

### *Research & Development Costs*

The research and development costs decreased by 14.0% from approximate RMB266.2 million in 2020 to approximate RMB228.9 million in 2021. The decrease was mainly due to less consumption of material parts.

### *Fair Value Changes*

During the period, the Group recorded a fair value gain of approximate RMB2.8 million on investment properties and fair value gain of approximate RMB1.2 million on transfer of properties held for sale to investment properties.

### *Finance Costs*

Finance costs net of interest capitalised were approximately RMB170.6 million in 2021, compared with approximately RMB163.0 million in 2020, representing an increase of 4.7%. The increase was mainly due to increase in bank borrowings.

### *Income Tax Expense*

Income tax expenses increased by 75.6% from approximately RMB39.4 million in 2020 to approximately RMB69.2 million in 2021. It is mainly due to increase in turnover of sales of special computers products.

### *Profit Attributable to Owners of the Company*

The Group's profit attributable to owners of the Company decreased from approximate RMB210.5 million in 2020 to approximate RMB166.2 million in 2021, representing an approximate decrease of 21.0%. The net profit margin has been decreased from 13.6% to 12.8%.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operation with internal resource and banking facilities by bankers in the PRC. As at 31 December 2021, the Group's gearing ratio had slightly decreased to approximate 64.3% (calculated on the basis of the Group's total liabilities over total assets) from approximate 65.8% as at 31 December 2020. At the year end date the Group's total bank borrowings amounted to approximate RMB3,432.0 million (2020: approximate RMB3,296.1 million). The Group's cash and bank balances as at 31 December 2021 decreased to approximate RMB2,445.4 million (2020: approximate RMB2,486.4 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to approximate 2.19 as at 31 December 2021 (2020: approximate 1.58).

## FOREIGN EXCHANGE EXPOSURES

Since most of the transactions of the Group were denominated in Renminbi, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year under review.

## CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2021.

## CAPITAL COMMITMENTS

As at 31 December 2021, the Group had contracted but not provided capital commitments for amounting to approximate RMB462.5 million (2020: approximate RMB624.8 million) in respect of the construction of buildings and properties under development in Wuxi, Kunshan and Hangzhou.

## PLEDGE OF ASSETS

As at 31 December 2021, the Group has pledged certain of its property, plant and equipment, investment properties, properties under development and held for sale with a total carrying amount of approximate RMB3,273.9 million (2020: approximate RMB3,132.4 million) as security for bank borrowings and general banking facilities granted to the Group. Except for the above, there are no other charges on the Group's assets.

## EMPLOYEE INFORMATION

As at 31 December 2021, the Group had a total workforce of 799 (2020: 867). Employee benefits during the year were approximately RMB117.9 million (2020: approximate RMB110.6 million).

The Group recognises the importance of high caliber and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration policies are mainly in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. The Group remunerates its employees based on performance, experience and prevailing industry practices. The Group also provides Mandatory Provident Fund benefits for its employees in Hong Kong and the Statutory Retirement Scheme for its employees in the PRC.

## RISKS AND UNCERTAINTIES

The Company has identified principal risks and uncertainties that the Group faces with respect to economic risks, operational risks, regulatory risks, financial risks, and specific risks related to the Group's corporate structure.

The Group's business, future results of operations and future prospects could be materially and adversely affected by those risks and uncertainties. The following highlights the principal risks and uncertainties of the Group and it is not meant to be exhaustive. There may be other risks and uncertainties which are not known to the Group or which may not be material now but turn out to be material in the future.

### Operational Risks

***(1) Demands for a Number of Professional Technologies***

Special computer is the combination of computer, communication and software technologies. Development of this product requires cooperation of professionals in computer hardware, micro-electronics, communication, network, software and precision machinery, and there are a number of special computer categories for the purposes of different industries. As a technology-intensive and capital-intensive industry with higher requirements on technologies yet low yield for a single product, its comprehensive entry barriers are high.

***(2) Industry Barriers***

The development of special computer product requires a good knowledge of critical technologies in terms of computer, communication and software, extensive experience in product development and production management and a profound understanding of the knowledge on application of products in the target industries. Due to the aforementioned factors, a competitor of the special computer market can only build its competitive edge relying on the gradual accumulation in the long-term development, production and operation practices, and construction of sales channel, as well as rich experience in industry application. As a result, the industry has higher entry barriers.

***(3) Competition Risks in the International Market***

Despite the current top-ranking among companies in China in terms of the market share taken up in Mainland China, the Company is still at its development phase in respect of the international market. Accessing the international market, the Company will unavoidably be in direct competition with the international giant companies. In view of sales experience, capital strength and production scale, there is still a gap between the Company and international giant companies, which leads to certain risks in the development of the international market.

### Macroeconomic Risk

The extremely unstable international situation due to the ongoing epidemic over the world, the stalemate in the China-U.S. frictions and the conflict between Russia and Ukraine continued to exacerbate the shortage and price rise of semiconductors and related raw materials, which have brought upon more risks and challenges to the China's and global economies. The ongoing pandemic prevention and control measures of China has raised the cost and reduced the competitive edges of the manufacturing industry. This would adversely affect the operation and development of the Company. Due to the import of certain raw materials and part of the advanced equipment required during development, and some exports, hence the exchange gain or loss of the Company is subject to the effects arising from fluctuations in price and exchange rate in the international market.

In response to the changes in the operating environment and the new opportunities and challenges ahead, the Company will make prudent decisions and adjust its expectation to the market and operation strategy in due course. It means optimization of its distributor system through reform under such new condition, shortened product delivery period and keeping abreast of the market practice. The Company will focus on the research and development of special computer products, speed up the application and innovation of intelligent software and hardware products and make adequate adjustments to the existing product structure in order to ensure the necessary advancement of our products.

### Capital Risk

Details of capital risk are set out in note 35 to the financial statements.

### Financial Risk

Details of financial risk are set out in note 36 to the financial statements.

# DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S PROFILE

## EXECUTIVE DIRECTORS

**Mr. Chen Zhi Lie (陳志列)**, aged 58, is the Chairman, an executive Director and the Chairman of the Nomination Committee of the Company. He is the founder of the Company and is responsible for the overall strategy and planning for the business of the Company. Mr. Chen graduated with a bachelor degree of engineering in computer application from Shenyang Jianzhu University (瀋陽建築大學) in the PRC in 1984. He also obtained a master degree in computer science and computer engineering from the department of engineering in Northwestern Polytechnical University (西北工業大學) in 1990. Mr. Chen has over 38 years of experience in computer and automation of control systems.

In February 2003, Mr. Chen was awarded the prize of Guangdong Province Outstanding Entrepreneur of Domestic owned Enterprises (廣東省優秀民營企業家) by Guangdong Province Government (廣東省人民政府). Mr. Chen was accredited as "Manager of Edges in Comprehensive Quality Control (全面質量管理優勢管理者)" by Quality Association of Shenzhen and as "Excellent Small Medium Enterprise of Shenzhen (深圳市優秀中小企業家)" by Association for Small Medium Enterprises of Shenzhen in 2004. In 2005, Mr. Chen was elected as a member of the Executive Committee of the Fourth Chinese People's Political Consultative Conference of Shenzhen (深圳市第四屆政協常委). In 2007, Mr. Chen was elected as a member of Guangdong Political Consultative Conference (廣東省政協委員). In 2008, Mr. Chen was accredited as 2007 CCTV's Man of the Year in Chinese Economics and awarded the prize of Innovation of the Year. In 2010, Mr. Chen was elected as a Nation commissar of the Chinese People's Political Consultative Conference (CPPCC). In 2012, Mr. Chen was elected as the President of the Commerce Association of Technology Equipment Industry under the All-China Federation of Industry & Commerce and the primary legal representative and the vice-chairman (vice-president) of the Guangdong Federation of Industry and Commerce (General Commerce Association). In 2013, Mr. Chen was elected as a member of the BRICS National Business Council. In 2016, Mr. Chen was presented the outstanding award "Shenzhen Entrepreneurs' Influential Leader in China* (影響中國的深商領袖)". In 2017, Mr. Chen was elected as the President of the third session of the Commerce Association of Technology Equipment Industry under the All-China Federation of Industry & Commerce. In 2018, Mr. Chen was selected as one of the "Top 100 Outstanding Private Entrepreneurs released in the 40 Years of Reform and Opening Up (改革開放40年百名傑出民營企業家名單)". In 2019, Mr. Chen was elected as the chairman of the Shenzhen Federation of Industry and Commerce (General Commerce Association). In 2020, Mr. Chen was awarded the title of a Brand Builder at the "40 Brands to Tribute to Special Zones for 40 Years (獻禮特區40年，致敬品牌40人)" in the Shenzhen International Brand Week. In 2022, Mr. Chen was accredited as "2021 China Economic Personage of the Year".

**Mr. Geng Wen Qiang (耿穩強)**, aged 66, is an executive Director, the compliance officer and a member of the Remuneration and Review Committee of the Company. He is a professor-level senior engineer. He joined the Company since August 2007 and currently is the general manager of the Company's production center. Mr. Geng graduated with a master degree in automation from Xi'an University of Technology (西安科技大學) in 1983. Mr. Geng has over 38 years in computer and automation of control system. In 2012, He was elected as executive vice president of Shenzhen Computer Industry Association and the representative of Shenzhen Nanshan National People's Congress. In July 2015, Mr. Geng was awarded Shenzhen Primary Computer Technology Contribution Award (深圳市一級計算機科技貢獻獎章).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Wu Yan Nan (吳燕南)**, aged 56, is an independent non-executive Director, a member of the Audit Committee, a member of the Nomination Committee and the Chairman of the Remuneration and Review Committee of the Company. Ms. Wu graduated from Changzhou Industrial and Commercial Bank Specialized Secondary School in 1995, majoring in financial accounting. She has many years of financial and human resource management experiences. She is currently the director of operations of Hyweb EmergingTech (Shenzhen) Limited (凌網研科(深圳)信息有限公司).

**Ms. Li Qian (李茜)**, aged 58, is an independent non-executive Director, a member of the Audit Committee and a member of the Nomination Committee of the Company. Ms. Li is a senior architectural electrical design engineer (professor level) (建築電氣設計高級工程師(教授級)) recognised by the Human Resources and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳). She obtained a bachelor's degree in industrial electrical automation from Shenyang Jianzhu University (沈陽建築大學) in 1984. Ms. Li has preeminent expertise in architectural electrical design, with years of relevant working experiences. From 2003 till now, she has been serving as the deputy chief electrical engineer of Zhuyuanyuan of Shenzhen Central Architectural Design and Research Institute Co., Ltd. (深圳市建築設計研究總院有限公司築塬院).

**Ms. Xu Hai Hong (徐海紅)**, aged 43, is an independent non-executive Director, the Chairman of the Audit Committee and a member of the Remuneration and Review Committee of the Company. Ms. Xu obtained a bachelor's degree in financial management from Dongbei University of Finance and Economics (東北財經大學) in 2018. From March 2016 to February 2017, she worked as a board secretary in Shenzhen Jingge Construction Company Limited (深圳市京格建設股份有限公司), a public company incorporated in the PRC (NEEQ: 839208). From March 2017 till now, she has worked as a senior deputy chief executive officer and a board secretary in Shenzhen Hongyeji Geotechnical Technology Company Limited (深圳宏業基岩土科技有限公司), a limited company incorporated in the PRC. During the time when Ms. Xu assumed the aforesaid positions, Ms. Xu has involved in the areas of financial management, company secretarial matters, internal control management, preparing and auditing comparable financial statements, and reviewing and analysing audited financial statements.

## SUPERVISORS

**Mr. Zhan Guo Nian (詹國年)**, aged 51, is a staff representative Supervisor and the Chairman of the Supervisory Committee of the Company. Mr. Zhan graduated from Chengdu Geological College (中國成都地質學院) in the PRC with a bachelor degree in engineering in 1991. He has over 30 years of experience in management and administration. Mr. Zhan joined the Company for management and administration work in March 2001.

**Ms. Liu Jia Yi (劉嘉怡)**, aged 29, is an independent Supervisor of the Company. Ms. Liu obtained a bachelor's degree in business management from Shandong University (山東大學) in the PRC in 2018. She has over 9 years of working experience in financial accounting.

**Ms. Pu Jing (濮靜)**, aged 56, is an independent Supervisor of the Company. Ms. Pu graduated from Wuhan Iron and Steel University (武漢鋼鐵學院) in the PRC with a bachelor degree in engineering in electric automation in 1988. She has over 31 years of experience in industrial computer testing.

## SENIOR MANAGEMENT

**Mr. Chen Xiang Yang (陳向陽)**, aged 55, is the general manager and the head of research and development department. Mr. Chen obtained a bachelor degree in wireless electronics technology from Chongqing University (重慶大學) in the PRC in 1988. Mr. Chen joined the Company in July 1999 and is in charge of the production and quality control functions of the Company. He has over 27 years of experience in the quality control of electronic products.

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

**Mr. Tsui Chun Kuen (徐振權)**, aged 71, is the chief financial controller, qualified accountant and company secretary of the Company. Mr. Tsui obtained a master degree of business administration from University of East Asia in Macau in 1991. He is a fellow member of the Association of International Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has more than 33 years of experience in finance and accounting. Mr. Tsui has served the Company as the financial controller, qualified accountant, company secretary and authorized representative during the period from July 2002 to August 2004 and from June 2007 till now.

# REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2021.

## PRINCIPAL ACTIVITIES

The principal activities of the Company comprise the research, development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories, and development of properties in the PRC. Details of the principal activities of the subsidiaries are set out in note 31 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Companies Ordinance"), including a fair review of the business of the Group and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2021, and an indication of likely future development in the Group's business, can be found in the "Chairman's Statement", "Management Discussion and Analysis", "Report of the Directors", "Environment, Social and Governance Report" and "Corporate Governance Report" sections of this Annual Report. The above sections form part of this report.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2021 and the financial position of the Company and the Group at that date are set out in the financial statements on pages 41 to 116.

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

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29(b) to the consolidated financial statements and in the consolidated statement of changes in equity on page 44, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's Articles of Association, amounted to RMB1,817 million.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, 49.3% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 21.7% of the Group's revenue for the year. 15.4% of the Group's total purchases were attributable to the Group's five largest suppliers and purchases from the Group's largest supplier accounted for 4.0% of the Group's total purchases.

According to the best knowledge of the Directors, neither the Directors of the Company, their associates (as defined under the Listing Rules), nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers and five largest suppliers during the year.

## DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company during the year were:

### Executive Directors

Mr. Chen Zhi Lie *(Chairman)*
Mr. Tso Cheng Shun (resigned on 21 May 2021)
Mr. Geng Wen Qiang

### Independent non-executive Directors

Mr. Yu Tat Chi, Michael (resigned on 21 May 2021)
Mr. Zhang Da Ming (resigned on 21 May 2021)
Mr. Ling Chun Kwok (resigned on 21 May 2021)
Ms. Wu Yan Nan
Ms. Li Qian (appointed on 21 May 2021)
Ms. Xu Hai Hong (appointed on 21 May 2021)

### Supervisors

Mr. Zhan Guo Nian *(Chairman)*
Ms. Pu Jing (retired as Staff Representative Supervisor and Chairman of the Supervisory Board on 20 June 2021, and appointed as Independent Supervisor on the same date)
Mr. Zhang Zheng An (retired on 29 June 2021)
Mr. Ng Mun Hong (retired on 29 June 2021)
Ms. Kwok Ka Man (retired on 29 June 2021)
Ms. Liu Jia Yi (appointed as Independent Supervisor on 29 June 2021)

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

## DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors, Supervisors and the senior management of the Company are set out under the section "Directors', Supervisors' and Senior Management's Profile" of the Annual Report.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors of the Company has entered into a service contract with the Company with effect from the date of appointment of the respective Directors and Supervisors, for a term of three years.

Apart from the foregoing, no Directors of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2021.

## DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Company's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a Director, Supervisor or controlling shareholder of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, the interest and short positions of the Directors, Supervisors (the "Supervisors") and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or 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 for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

### (a) Long position — interests in the Company

| Director | Type of interests | Number of Shares | Class of Shares | Approximate percentage of holding of the relevant class of shares of the Company | Approximate percentage of holding of the total share capital of the Company |
|---|---|---|---|---|---|
| Chen Zhi Lie (陳志列) | Interest of a controlled corporation | 878,552,400 (Note 1) | Domestic Shares | 95.00% | 71.25% |
| Chen Zhi Lie (陳志列) | Interest of a controlled corporation | 46,239,600 (Note 2) | Domestic Shares | 5.00% | 3.75% |

Notes:

1. These Domestic Shares are held by EVOC Hi-Tech. Holding Group Co., Ltd. which is owned as to 70.5% by Mr. Chen Zhi Lie (陳志列) ("Mr. Chen") and 29.5% by Ms. Wang Rong (王蓉), spouse of Mr. Chen. By virtue of Mr. Chen's holding of more than one-third interest in EVOC Hi-Tech. Holding Group Co., Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by EVOC Hi-Tech. Holding Group Co., Ltd. in the Company pursuant to Part XV of the SFO.

2. These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 100% by Mr. Chen Zhi Lie (陳志列). By virtue of Mr. Chen's holding of the entire interest in Shenzhen Haoxuntong Industry Co. Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by Shenzhen Haoxuntong Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.

### (b) Long position — interests in associated corporations

| Directors | Associated corporation | Type of interests | Approximate percentage of holding of the total share capital of the associated corporation |
|---|---|---|---|
| Chen Zhi Lie (陳志列) | EVOC Hi-Tech. Holding Group Co., Ltd. | Beneficial owner | 70.5% |
| | | Interest of spouse | 29.5% |
| Wang Rong (王蓉) | EVOC Hi-Tech. Holding Group Co., Ltd. | Beneficial owner | 29.5% |
| | | Interest of spouse | 70.5% |

Note: Ms. Wang Rong (王蓉) is the spouse of Mr. Chen Zhi Lie (陳志列) and therefore Mr. Chen Zhi Lie (陳志列) is deemed to be interested in the shares held by Ms. Wang Rong (王蓉) and Ms. Wang Rong (王蓉) is deemed to be interested in the shares held by Mr. Chen Zhi Lie (陳志列) by virtue of Part XV of the SFO.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2021, so far as the Directors are aware, the persons who have an interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO, are as follows:

### Long positions in shares

| Name of shareholder of the Company | Nature and capacity in shareholding interest | Number of Shares | Class of Shares | Percentage of the relevant class of shares | Percentage of total registered share capital |
|---|---|---|---|---|---|
| EVOC Hi-Tech. Holding Group Co., Ltd. (Note 1) | Registered and beneficial owner of the Domestic Shares | 878,552,400 | Domestic Shares | 95.00% | 71.25% |
| Chen Zhi Lie (陳志列) (Note 1) | Interest of a controlled corporation | 878,552,400 | Domestic Shares | 95.00% | 71.25% |
| Shenzhen Haoxuntong Industry Co., Ltd. (Note 2) | Registered and beneficial owner of the Domestic Shares | 46,239,600 | Domestic Shares | 5.00% | 3.75% |
| Chen Zhi Lie (陳志列) (Note 2) | Interest of a controlled corporation | 46,239,600 | Domestic Shares | 5.00% | 3.75% |

Notes:

1. Mr. Chen Zhi Lie (陳志列) is the beneficial owner of 70.5% interests in EVOC Hi-Tech. Holding Group Co., Ltd. and is deemed to be interested in the Domestic Shares owned by EVOC Hi-Tech. Holding Group Co., Ltd. pursuant to Part XV of the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of EVOC Hi-Tech. Holding Group Co., Ltd.

2. These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 100% by Mr. Chen Zhi Lie (陳志列). By virtue of Mr. Chen's holding of the entire interest in Shenzhen Haoxuntong Industry Co. Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by Shenzhen Haoxuntong Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.

Save as disclosed above:

(i) As at 31 December 2021, none of the Directors, Supervisors or chief executives of the Company or their respective associates has any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (if any) (within the meaning of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and

(ii) As at 31 December 2021, so far as is known to any Director or Supervisor, there is no person (other than a Director, Supervisor or chief executive) who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Enlarged Group or any other substantial shareholders whose interest or short position are recorded in the register required to be kept by the Company under section 336 of the SFO.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

At no time during the year, except for Mr. Chen, the Directors or Supervisors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meanings of the SFO).

## SHARE OPTION SCHEME

As of 31 December 2021, the Company has not adopted any share option scheme or granted any option.

## REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all the Directors, the Directors of the Company had complied with the required standard of dealing and the code of conduct for Directors' securities transactions during the year ended 31 December 2021.

## COMPETING INTERESTS

None of the Directors, initial management shareholders or their respective associates (as defined in the Listing Rules) had any interests in any business which competes or may compete with the Group or any other conflicts of interest which any such person may have with the Group.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not purchased, sold or redeemed any of the Company's securities during the year.

## BANK BORROWINGS

As at 31 December 2021, the bank borrowings of the Company are set out in note 26 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the related laws of the PRC, which oblige the Company to offer new shares on pro-rata basis to existing shareholders.

## AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the auditor of the Company.

By Order of the Board

**EVOC Intelligent Technology Company Limited**
**Chen Zhi Lie**
*Chairman*

Shenzhen, the PRC, 27 April 2022

Adhering to our corporate principle of "integrity and harmony, sustainable operation", EVOC endeavours to combine its development with extensive social responsibilities by aligning its corporate interest with social objective. The Company cooperates with stakeholders and industrial value chains to jointly create a harmonious ecological environment suitable for the growth and development of the Company and the world.

## A. ENVIRONMENT

### A1: Emission

The Company highly values environmental protection practices. Constantly driven to go green, we invest special funding each year to make our production environmentally friendly. The Company proactively upholds "green production", regularly upgrading our production equipment not only to improve operating efficiency, but also to greatly reduce energy consumption. We contribute to air quality improvement by preventing direct emissions of dust generated during production process through collection and conversion techniques. The Company has also achieved a paperless office with our active promotion of office automation, and introduced the Manufacturing Execution System ("MES"), in conjunction with the Product Lifecycle Management ("PLM"), System Applications and Products ("SAP") system and Office Automation System ("OAS").

#### *A1.1 Total Emission of Greenhouse Gases*

In response to the widespread concern of the world over climate change, the Company actively adopts measures for carbon reduction and sequestration in accordance with the requirements relevant to greenhouse gas emission reduction, addressing the challenge of climate change together with the society. In 2021, the total emission of greenhouse gases of the Company amounted to 7,866 tons of carbon dioxide (calculated by electricity consumption).

#### *A1.2 Emission of Hazardous Waste*

The Company reduces the emission of air, land and water pollutants by identifying, assessing and managing the waste generated during the production process. All hazardous waste generated by the Company is sent to qualified hazardous waste agencies for handling, while the waste water generated in production is released to the sewage treatment station of the Company and then discharged after meeting the required standards. In 2021, approximate 10,526 tons of waste water was treated and discharged, while no hazardous solid waste was produced.

#### *A1.3 Emission of Non-hazardous Waste*

The non-hazardous waste generated in 2021 totalled approximately 1.66 tons, all of which was treated by entrusted companies recognised by government departments. During the production process, materials are circulated by the way of recycling and reuse to reduce waste generation. For example, plastic frames and cabinets are reused during the production of products.

#### *A1.4 Emission Reduction Measures and Results*

The Company is investing in solar heating for the industrial park, in order to effectively utilise new energy and reduce energy consumption. The Company actively promotes environmental practices during internal training sessions and meetings, equipping every employee with environmental awareness of energy conservation and emission reduction. The Company has taken early steps to implement new environmental protection laws, fulfilling its environmental protection duties and responsibilities and affirming responsible parties by consciously complying with the laws and regulations and establishing a sound responsibility system of pollution prevention and control.

**A2: Resource Consumption**

The market standing of an enterprise not only depends on the quantity and quality of the resources at its disposal, but also its efficiency in utilizing its resources. Through strong focus on internal management and system construction, the Company formulated various management systems including quality management, technology management, facilities management, financial management, and staff management, regulating the energy and resources used in our production, operations, and management activities, raising the Company's energy and resource consumption efficiency and cost-effectiveness.

***A2.1 Use of Energy***

The main source of energy of the Company is electricity with the total electricity consumption in 2021 being approximately 8,289,540 kWh.

***A2.2 Use of Water Resources***

The Company applies the concept of "saving and reusing water" to every stage of its production and operations. The total water consumption in 2021 was approximately 135,400 cubic meters.

***A2.3 Energy Conservation and Consumption Reduction Management***

At the macro level, increasing efforts in energy conservation and consumption reduction is both the fundamental solution to the issue of China's resource scarcity, and the important security for rapid and healthy economic development. At the micro level, it is a vital practice for an enterprise to increase efforts in energy conservation and consumption reduction, both in terms of the importance to society as a whole, as well as to the sustainable development of the enterprise itself.

*(a) Energy Conservation and Emission Reduction Promotional Measures*

The Company vigorously promotes the spirit of energy saving and consumption reduction. We organise relevant educational activities to nurture our staff with the mindset of energy conservation and consumption reduction. The Company incorporates the practice of "resource saving and environmental protection" in each step of production and office operations.

The Company incorporates the works of energy saving and consumption reduction in daily performance evaluation and applies them to every stage of operations, including energy saving for electricity, water, office equipment, appliances, facilities, and mechanic equipment. We conduct activities about "energy saving and emission reduction", as well as receiving reasonable suggestions from our staff on energy saving and emission reduction.

*(b) Energy Conservation and Consumption Reduction Measures*

The Company conducts water conservation education for employees, encouraging the reuse of water so as to minimise water resource consumption and reduce the generation of waste water at the source. We work to ensure proper assembly and prompt repair of water supply equipment to maintain them in optimum condition. The Company will immediately repair the pipes if any departments spot any leakage. By managing water usage in 2021, the Company saved approximately 13,300 cubic meters of water.

The use of power in the Company's production process complies strictly with the Electric Power Law of the People's Republic of China. Our production operations adhere to the principles of conservation, safety, high efficiency, and low consumption. Our dormitory/office operations maintain electricity saving policies. Lights are switched off when no one is around. Appliances not in use are promptly turned off. Office equipment, such as computers, copiers, and printers, are configured to automatically enter low energy-consumption and hibernation modes when not in use, and are powered off to reduce stand-by electricity consumption if they will not be used for a long time.

The Company adopts paperless office and reuse of paper policies. Waste printing paper is used for printing documents for proofreading, and documents are also checked on the computer as much as possible before printing to avoid excessive use of paper. With the exception of formal documents and data, all departments adopt electronic files as far as possible. Paper is printed on both sides and materials not related to work are not allowed to be printed and copied at office.

#### *A2.4 Reasonable Distribution and Comprehensive Utilization of the Resources*

Following the principles of uniformity and centrality, the Company emphasizes streamlined management, minimizing communication cost, and improving the consolidation of resources.

The Company regularly convenes meetings for middle or above level management, exchanging working experiences, identifying and analysing problems, and promptly adjusting technical solutions, thereby optimizing resource allocation. Concurrent with our devotion towards making technological breakthroughs, the Company conducts regular and ad-hoc systematic meetings and spot checks to monitor work schedules and statuses, communicate up-to-date information, and work on prompt resolution of problems requiring coordination, thus strengthening the daily communication and coordination between relevant departments, realizing the mutual cooperation of various departments and project teams, and adding and creating value from available resources.

### A3: Environment and Natural Resources

Considering the direct and indirect impact on the environment in the areas where the Company operates, we are devoted to reducing and alleviating any negative impact of the Company's activities as much as possible, continuously seeking performance improving methods. The Company promises to reduce environmental influence as much as possible including use of resources such as energy and water.

The Company implements numerous measures, including upgrading hardware equipment, using clean energy sources, and improving our administrative management system. Details can be found in the previous sections, under "Emissions" and "Resource Consumption". In addition to our compliance with the relevant systems and standards and continuously enhancing product research and development, the Company is also dedicated to exploring the application of environmental-friendly materials into its products.

## B. SOCIAL

### B1: Caring About Our Staff

People are the core competitiveness of enterprises and the development of any enterprise is inseparable from having excellent human resources. The Company provides a series of welfare protection for staff and always attaches importance to staff training. We adhere to the talent strategy of "people first", offering timely and reasonable returns to our employees according to their performance and contribution. We help our employees to improve themselves by providing training and clear career development paths. In addition, we have an advanced communication channel for our employees. The Company attaches great importance to our employees' leisure, physical and mental health, and family life, encouraging them to carry out various forms of corporate culture activities to enrich their lives outside of work.

(1) The Company not only provides competitive salary for employees, but also adjusts salary in a timely manner, by performing regular studies into external labour market changes and salary standard and reviewing the Company's business and individual performance.

(2) The Company provides abundant compensation and welfare for employees. Employee dormitory is provided for free, with three hotel-style self-service nutrition meals, leisure facilities including gym room, yoga room, KTV, indoor constant-temperature swimming pool, cinema and basketball court, as well as a variety of community activities such as dancing club, fitness club and charity activities.

(3) The Company organises monthly cultural and sports competitions, as well as large annual festivities, to allow staff to train physically, and to strengthen team cohesiveness. These include mountain-climbing competitions, sports meet, KOL Wanghong singing competitions, football competition, awards party, and the Spring Festival Gala.

(4) The Company frequently carries out various forms of corporate culture activities such as corporate culture salons, maker and creativity contests, yacht party, and local and overseas trips.

### B2: Health and Safety

The Company is committed to providing a safe and healthy working environment for our employees and to improving work satisfaction. We regard the safety and health of employees as of utmost importance in various operations of the Company.

The Company has established a robust safety and occupational health management systems, strictly abiding by the national labour, safety, occupational health and other laws, regulations, and standards. For managers at various levels of the Company, the employees' safety and health come first and foremost; the safety responsibility is a part of the duties of managers at all levels. Each of the Company's safety practices is based on both humanitarian and economic concerns. The Company takes measures to prevent our employees from occupational injury and property loss as far as possible, protecting the Company, its customers, and the public from being harmed in case of accidents.

**B3: Development and Training**

By implementing the practical and simple corporate culture of "unconventional management", the Company provides multiple career development paths for employees, so they can advance their career vertically or diagonally through various career paths, such as management, technology, business, and profession.

The Company regularly carries out diversified training activities, such as new joiner induction training, product knowledge training, one on one tutoring by experienced tutors, management knowledge training, external studying opportunities, and high-end exchange meeting, and internal monthly training programs which provide specific training courses to certain departments.

**B4: Labour Standards**

The Company strictly complies with the Labour Law, the Labour Contract Law, the Social Insurance Law and other relevant laws and regulations, emphasizes human resource management, establishes a competitive salary and welfare system, and pays attention to employee career development. The Company also respects and protects the legal rights of employees, implementing labour contract signing, renewal, change, termination, cancellation, and other operations in accordance with relevant laws. The Company has established labour contract accounts, as well as reasonably set performance evaluation indicators, fully paid monthly labour compensation, fully made contribution to social insurance in accordance with laws, and guaranteed legal working hours. The Company provides welfares and security for employees in accordance with relevant national laws and regulations. The policy for selection and appointment of management is competition for posts, providing reasonable career development paths for employees, and giving professional titles to eligible employees.

**B5: Supply Chain Management**

Effective supply-chain management plays an important role in pushing the sustainable development of businesses. Thus, the Company is dedicated to improving product innovation, quality supervision, supply-chain response and cost effectiveness, which are of great significance for business development. By improving supply chain management, the Company can provide products for customers more efficiently.

The Company has established good long-term partnerships with most of our raw material suppliers, signing long-term supply contracts to ensure stable supply, price, and primary technologies. Moreover, the Company purchases principal raw materials through multiple channels, avoiding reliance on a single supplier, while making selections at low price to control cost and quality of raw materials. According to the forecasts of actual market demands, the Company also formulates reasonable production plans and procurement plans of raw materials to determine a reasonable inventory and reduce the risk of overstock. In order to avoid negative influence of fluctuations on prices of raw materials of the Company, it will also improve manufacturing techniques, enhance internal management and cost control, improve product quality and reduce product costs.

**B6: Product Liability**

Taking "satisfying or exceeding customer expectation" as our operation goal, the Company treats customers sincerely to build a harmonious internal and external environment.

***Intellectual Property***

Over years of development, the Company has been honoured successively with numerous awards, including Innovation Enterprise, New High-tech Enterprise, Key Software Enterprise in the state planning, New Key High-tech Enterprise of National Torch Program, and National Advanced Grassroots Party Organization in 2012. The Company has a national special computer engineering and technological research centre, a national engineering laboratory and the nationally recognised brand "EVOC". The Company and its products have received numerous national, provincial and municipal awards. The Company has compiled 19 national standards and 2 industry standards issued by the special computer industry, and drafted development planning of the "12th Five-year Plan" of the computer industry as entrusted by the Ministry of Industry and Information Technology.

***Quality Assurance***

The Company regards "satisfying customers and quality first; responding quickly and prevention; improving continuously and pursuing excellence" as its quality management principle and promises return and replacement of products within one month, with one-year warranty, lifelong service and 24-hour response to customer demands.

The Company has well-equipped plants, advanced production and testing equipment, outstanding human resource management, and comprehensive quality management system. The Quality Department of the Company deals with a series of quality control process from processed/supplied/warehousing raw material inspection, process control, shipping inspection, final control of finished products, and analysis of customer complaint to guarantee product quality. The Quality Department has set up a quality inspection team which regularly conducts systematic examination on the production sites. Once failure to meet requirements of quality system is found in any department or step, the inspection team issues corrective and preventive reports and accountable units have to rapidly put forward solutions, take action, and locate the department that is responsible.

### *After-Sales Service*

To help client realizing the enhancement of competitiveness, the Company is committed to providing its customers with the following reassuring services:

(1) Warranty certificate. The product serial number is regarded as warranty certificate by the Company, and the client is not required to provide machine-purchase invoices or warranty card.

(2) Telephone service. The Company offers customers free 24-hour telephone technical support service for life.

(3) Delivery and repair service. This service allows customers to send machines or faulty units to the maintenance centre of the Company for repair. It is also called the delivery and repair service or Return Merchandise Authorisation ("RMA") service.

(4) Door-to-door service. The Company provides door-to-door service by engineers in Mainland China. Customers who need door-to-door service can purchase the EVOC service card to obtain such service.

(5) Delivery service. When it is confirmed that customers can replace damaged parts, keyboards, mouse and cable by themselves, the Company will deal with these situations by "delivery service".

(6) Customised service. The Company offers the customers a personalised service that goes beyond the basic service, which can be purchased together with the physical product.

## B7: Anti-Corruption and Prevention of Commercial Bribery

The Company has preliminarily established and improved relevant systems concerning anti-corruption and the prevention of commercial bribery, as well as managed our subsidiaries in a unified way. The particulars are as follows:

### *(1) Strengthening Integrity*

The Company has established a credit file system by post commitment and service commitment. In accordance with laws and regulations as well as self-regulation industry rules, employees involved in commercial bribery shall have their opportunities and interest stripped and limited, as a way of making them to pay the price, bear the corresponding risk, and suffer the appropriate consequences, while ensuring that honest, trustworthy, and law-abiding employees have their ethical behaviour and interests protected and encouraged. An advanced accounting system has been established, and bill management has been improved to reduce cash transaction.

### *(2) To Establish and Improve the System for Prevention of Commercial Bribery*

The Company has formulated a code of conduct and professional standard, advocating the trust system of anti-commercial bribery, and strictly adhering to the rules of fair competition and lawful operation. The Human Resource Department of the Company regularly carries out relevant training of professional ethics education to raise the awareness of observing law for managers and staff and to familiarise related people with professional code of ethics, making them to develop good occupational habits.

To encourage insiders to proactively report commercial bribery, the Company keeps the identity of whistleblowers strictly confidential and provides material rewards for the whistleblowers. The Company has set up reporting mailboxes to encourage staff and people in the same industry to make complaints and reports.

The Company stipulates that suppliers should be selected in an equitable manner (including bidding method) and reciprocal transactions are prohibited. If it is necessary to meet with suppliers, at least two people of the Company shall be present. The Company imposes penalties on and may even dismiss employees who violate the rules. The Company requires certain employees at specific position to sign agreements and sets the rules of prohibition to prevent employees and cooperation units from bribing related people and stakeholders in work.

**B8: Community Participation**

The Company insists on giving back to the community in the course of our development, actively performing corporate social responsibility and taking part in social activities for public charity activities in various ways, including initiating poverty alleviation by transfusion-like method, leading the desertification control activity in Alxa, participating in charity auction of "Tong Meng Yuan" (童夢園), donating the Tibetan schools for the blind, building water cellars, supporting areas hit by a devastating earthquake, caring for ocean environment, helping to construct Motuo Kindergarten (墨脱幼稚園), supporting Dui Long Ga Chong Primary School (堆龍嘎沖小學) of Tibet and Li Min Da Gong Zi Di Primary School (利民打工子弟小學) of Beijing, and supporting the charity businesses of Yanbian and Ningxia. The Company owns only one constant temperature swimming pool in the region where it operates which is also equipped with professional life guard, equipment administrators, and security guards to provide a high-quality leisure and entertainment venue for the surrounding communities.

## OPERATING PRACTICE

The Company values the cooperation and development between our partners and establishes good partnership with suppliers and clients. The Company has carried out a comprehensive cooperation with INTEL by organizing several kinds of marketing promotion activities and new products seminars, assuming the Enterprise Architecture "EA" project of the INTEL to manufacture sample products for INTEL to release to its peers as references. The Company is Microsoft's global gold partner, cooperating closely with Microsoft for many years to jointly promote the sales of copyrighted software in China. In addition, the Company has built long-term strategic cooperative relations with CNPC, Sinopec, CRS and CNR, etc. The Company and the Shenzhen Branch of China Unicom worked together the development of "5G+ Industrial Internet", by offering one-stop solution to enable safe, real-time and reliable industrial intelligent applications through 5G technology, and help the high-quality transformation and upgrading of the Industrial Internet.

The Company is a member of Industrial Control Computer Technical Committee and Severe Environment Computer Technical Committee of China Computer Federation. It established EVOC Intelligent Science and Technology Association, undertook building of Shenzhen Ocean Industry Association and set up the communication and cooperation platforms for more upstream and downstream relevant enterprises. As a leading brand of special computers, the Company attended all kinds of activities held by the Association of Chinese Computer Users.

Leveraging our own advantages, we entered into strategic partnership with domestic famous scientific research institutions, such as Institute of Computing Technology Chinese Academy of Sciences, National University of Defence Technology, Jiangnan Institute of Computing Technology, MPRC, Peking University, Beijing University of Aeronautics and Astronautics, Harbin Institute of Technology, Northwestern Polytechnical University, Sun Yat-Sen University and South China University of Technology and so on with a purpose to promote the application and development of domestic chip application engineering, network information security, Internet of Things, aerospace, ocean technology, cloud computing and other technologies.

In addition, the Company has close cooperation with and outsources part of the work to local small and medium-sized enterprises which are developing together with EVOC, thus promoting our common development. We delivered our operation philosophy to suppliers through website, seminars, qualified supplier management system and various communications with suppliers to promote the close cooperation between us.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is a key factor in improving the confidence of existing and future shareholders, investors, employees, business partners and the community as a whole. The Company has complied throughout the period under review with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules without any deviation. None of the Directors is aware of any information that would reasonably suggest that the Company is not or was not in compliance with the requirements set out in the Code at any time during the period under review.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of conduct for the Directors of our Company to perform securities transactions. All Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the period from 1 January 2021 to 31 December 2021.

## THE BOARD

In accordance with good corporate governance principles, the Board convened regular and interim meetings in accordance with legal procedures and complied strictly with relevant laws, legal regulations and the Articles of Association of the Company when exercising its authority, with an emphasis on protecting the interests of the Company and its shareholders.

The main responsibilities of the Board include:

- To implement resolutions of the general meetings;
- To lay down the Group's management policies, business strategies and investment plans;
- To review and approve the annual, interim and quarterly results of the Group;
- To monitor and control operating and financial performance through the determination of the annual budget;
- To review and approve the appointment of auditor of the Group;
- To review the amendment to the Articles of Association of the Company.

In addition, the Board reviews its corporate governance practice and disclosure system by the following ways:

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

## BOARD COMPOSITION

The Board comprises five Directors, including two executive Directors and three independent non-executive Directors. The biographical details of all Directors are set out in pages 12 to 13 of this Annual Report.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

All Directors are appointed for a specific term. All the executive Directors and independent non-executive Directors of the Company are engaged under a service contract/letter of appointment with the Company for a term of three years.

According to the Company's Articles of Association (the "Articles of Association"), all Directors of the Company are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings of the Company. Any new Director appointed by the Board to fill a casual vacancy shall be subject to re-election by shareholders at the next general meeting and any new Director appointed as an addition to the Board shall be subject to re-election by shareholders at the forthcoming annual general meeting.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, the Company has appointed three independent non-executive Directors, at least one of whom has appropriate professional accounting qualifications. The Company has received from each of its independent non-executive Directors the written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

## DIRECTORS' TRAINING

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company.

## COMPANY SECRETARY'S TRAINING

Pursuant to the new Rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided his training records to the Company indicating more than 15 hours of relevant professional development by means of attending in-house briefings, attending seminars and reading relevant guideline materials.

## CHAIRMAN AND GENERAL MANAGER

The Chairman and general manager of the Company are Mr. Chen Zhi Lie and Mr. Chen Xiang Yang respectively. The roles of Chairman and general manager are separate and the division of responsibilities between the Chairman and general manager has been clearly established and set out in writing.

## BOARD MEETING

In order to ensure the highest rate of Directors' attendance, notice is given to all Directors at least 14 days in advance of the Board meeting. All Directors have access to the advice and services of the Company Secretary and secretary of the Board. Minutes of Board meetings are kept by the Company Secretary and secretary of the Board and sent to all Directors for their comments and records.

The Company held 4 Board meetings in the financial year ended 31 December 2021. The personal attendance of the Board meetings by Directors is set out as follows:

| | Number of meetings attended/ held during the Director's term of office | | | |
|---|---|---|---|---|
| | **Board** | **Audit Committee** | **Remuneration and Review Committee** | **Nomination Committee** |
| **Executive Directors:** | | | | |
| Mr. Chen Zhi Lie *(Chairman)* | 4/4 | | | 1/1 |
| Mr. Tso Cheng Shun (resigned on 21 May 2021) | 2/4 | | | |
| Mr. Geng Wen Qiang | 4/4 | | 1/1 | |
| **Independent non-executive Directors:** | | | | |
| Mr. Yu Tat Chi, Michael (resigned on 21 May 2021) | 2/4 | 1/2 | | |
| Mr. Zhang Da Ming (resigned on 21 May 2021) | 3/4 | 1/2 | | |
| Mr. Ling Chun Kwok (resigned on 21 May 2021) | 2/4 | 1/2 | | 1/1 |
| Ms. Wu Yan Nan | 4/4 | 1/2 | 1/1 | 1/1 |
| Ms. Li Qian (appointed on 21 May 2021) | 2/4 | 1/2 | | |
| Ms. Xu Hai Hong (appointed on 21 May 2021) | 2/4 | 1/2 | 1/1 | |

## BOARD COMMITTEES

The Company has established the Audit Committee, Remuneration and Review Committee and Nomination Committee. The function of each specialized committee is to study pertinent issues in its area of expertise and to provide opinions and suggestions for consideration by the Board under defined terms of reference.

## REMUNERATION AND REVIEW COMMITTEE

The Remuneration and Review Committee of the Company comprises one executive Director, Mr. Geng Wen Qiang and two independent non-executive Directors, Ms. Wu Yan Nan and Ms. Xu Hai Hong. Ms. Wu Yan Nan is the Chairman of the Remuneration and Review Committee. The authorities and responsibilities of the Remuneration and Review Committee comply with the provisions of the Code, the written terms of reference of which are available on the websites of the Stock Exchange and the Company. The Remuneration and Review Committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board.

During the year, the summary of duties performed by the Remuneration and Review Committee is set out below:

1. made recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

2. determined, with delegated responsibility, the remuneration package of individual executive Director and senior management member, including but not limited to basic salary, deferred emolument, share options and non-monetary benefits, pension rights and bonus, and the compensation payments (including any compensation payable for loss or termination of their office or appointment) and made recommendations to the Board on the remuneration of non-executive Directors.

## DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in note 10 to the financial statements.

## AUDIT COMMITTEE

The Company has established an Audit Committee which comprises three independent non-executive Directors, including Ms. Xu Hai Hong, Ms. Wu Yan Nan and Ms. Li Qian. Ms Xu Hai Hong is the Chairman of the Audit Committee. Rights and duties of the Audit Committee comply with the code provisions. Written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company. The Audit Committee is responsible for reviewing and supervising the Group's financial reporting procedures and internal control system and providing advice and recommendations to the Board. The committee met on a semi-annual basis and the review covers the findings of internal auditors, internal controls, risk management and financial reporting matters. The Audit Committee has discussed with the management and reviewed the annual results of the Group for the year ended 31 December 2021.

## NOMINATION COMMITTEE

The Nomination Committee of the Company comprises one executive Director Mr. Chen Zhi Lie, and two independent non-executive Directors, Ms. Wu Yan Nan and Ms. Li Qian. Mr. Chen Zhi Lie is the Chairman of the Nomination Committee. The Nomination Committee is primarily responsible for considering qualified persons to become the members of the Board and making recommendations to the Board on the same, as well as reviewing the structure, size and composition of the Board on a regular basis and as required. Written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business development. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

During the year, the summary of duties performed by the Nomination Committee is set out below:

1. reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and set up a policy on Board diversity ("Board Diversity Policy") for the Company;

2. reviewed the Board Diversity Policy; and reviewed its measurable objectives and the progress thereon; and

3. assessed the independence of the independent non-executive Directors.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

A statement of the Directors' responsibility for the financial statements is set out in the "Independent Auditor's Report" of this report.

## AUDITOR'S REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor. During the year under review, auditor's remuneration for audit services is approximately RMB2,008,000 (2020: RMB2,049,000). No services such as due diligence and other advisory services were provided, apart from audits.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence. The Company determines the remuneration of the Directors on the basis of their qualifications, experience and contributions.

## INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing and monitoring the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems are duly in place.

The Board conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management for the year ended 31 December 2021. The assessment was made by discussions with the management of the Company, its external and internal auditors and reviewed by the Audit Committee. The Board believes that the existing internal control system is adequate and effective.

## SHAREHOLDERS' RIGHTS

### Shareholders' Right to Propose Resolutions at General Meeting

Pursuant to Article 8.06 of the Articles of Association of the Company, shareholders holding more than 5% (including 5%) of the total voting shares of the Company are entitled to propose to the Company any new resolutions in writing, provided such resolution shall be submitted to the Company at least ninety days before convening the annual general meeting. The Company shall include, in the agenda of such meeting, those proposed matters which are within the terms of reference of the general meeting.

### Shareholders' Right to Convene an Extraordinary General Meeting ("EGM") or Class Meeting of the Shareholders ("Class Meeting")

Pursuant to Article 8.25 of the Articles of Association of the Company, two or more shareholders holding, in aggregate, more than one-tenth (including 10%) of the voting shares at the meeting proposed to be held may, by signing one written request or several counterparts of the same stating the subject matter of the meeting, require the Board to convene an EGM or Class Meeting. Upon receipt of the foregoing written request(s), the Board shall proceed to do so as soon as possible accordingly. The foregoing shareholdings are based on the date of the delivery of the shareholders' written request(s).

If the Board fails to issue a notice of convening a meeting within thirty days from the date of the receipt of the foregoing written request(s), the shareholders who have made the request may themselves convene a meeting in a procedure which follows that of such meetings to be convened by the Board as much as possible, within four months from the date of receipt of such request(s) by the Board. Any reasonable expenses incurred by the shareholders for convening and holding the meeting by reason of the failure of the Board to duly convene a meeting according to the foregoing request for holding the meeting shall be borne by the Company and shall be set off against any sums owed to the Directors in default by the Company.

## COMMUNICATION WITH THE BOARD

Shareholders are encouraged to maintain direct communication with the Board. Shareholders who have any questions for the Board may send their enquiries by letter or fax to the attention of the Company Secretary of the Company at Room 508A, 5/F, Harbour Crystal Centre, 100 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong. Fax no. 852–23757238.

## INVESTORS RELATIONS

The Company disclosed all necessary information to the shareholders in compliance with the Listing Rules. Meeting with media and investors were conducted periodically as necessary. The Company also replied the inquiry from shareholders timely. Our corporate website www.evoc.com contains corporate data, interim and annual reports issued by the Group as well as recent developments of the Group which enable shareholders and investors to have timely and updated information of the Group.

# REPORT OF THE SUPERVISORY COMMITTEE

To: All Shareholders

The supervisory committee of the Company has exercised its powers seriously to safeguard the interests of the Company and shareholders, complied with the principle of good faith, discharged its duties conscientiously and undertaken tasks in a diligent and proactive manner in accordance with the Company Law of the PRC, the relevant Hong Kong laws and regulations and the Company's articles of association.

The supervisory committee of the Company has reviewed in detail and approved the audited financial statements and this report which will be presented at the annual general meeting. Supervisors of the Company have reviewed prudently the operation and development plans of the Company, and carried out strict and effective supervision as regards whether major decision-making and exact decisions by the management of the Company are in compliance with the laws and regulations of the PRC and the articles of association and safeguard the interests of shareholders. Supervisors believe that during the year, the operating results of the Company were sufficient to reflect its position, and all expenses and costs incurred were reasonable. The provision for statutory surplus reserve made during the year has complied with the applicable laws and regulations of the PRC and the Company's articles of association.

During the year, supervisory committee had provided reasonable suggestions and opinions to the Board of directors in respect of the operation and development plans of the Company. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of its shareholders.

The supervisory committee of the Company is full of confidence in the future of the Company and would like to take this opportunity to express its gratitude to all shareholders, directors and staff for their strong support to the supervisory committee.

By order of the Supervisory Committee

**Zhan Guo Nian**
*Chairperson*

Shenzhen, the PRC, 27 April 2022

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**TO THE SHAREHOLDERS OF 研祥智能科技股份有限公司**
**(known as EVOC Intelligent Technology Company Limited for identification purpose only)**
*(Incorporated in the People's Republic of China with limited liability)*

## OPINION

We have audited the consolidated financial statements of EVOC Intelligent Technology Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 41 to 116, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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 land and buildings and investment properties (Notes 14 and 15 to the consolidated financial statements)

The Group had land and buildings, and investment properties, which were stated at fair value or revalued amount less accumulated depreciation.

Management estimated the fair values of these land and buildings and investment properties to be RMB764,018,000 and RMB2,164,623,000 respectively as at 31 December 2021. Independent external valuations were obtained in order to support management's estimates. Valuations are dependent on certain key assumptions that require significant management judgement including capitalisation rates, market rents, market rental growth rates, discount rates, price and cost of construction per square meter.

**Our response:**

- Evaluating the independent external valuers' objectivity, competence and capabilities;
- Assessing the methodologies used and the reasonableness of the key inputs and assumptions estimated or made by the management based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

We found the key assumptions were supported by the available evidence. We found the disclosures in Notes 14 and 15 to be appropriate.

**Impairment assessment of properties under development and properties held for sale (Note 19 to the consolidated financial statements)**

The Group had properties under development and properties held for sale with aggregate carrying amounts of RMB845,067,000 and RMB1,269,343,000 respectively as at 31 December 2021. Management concluded that the net realisable values were higher than their carrying amounts such that no impairment provision was required. Independent external valuations were obtained in order to support management's estimates. Valuations are dependent on certain key assumptions that require significant management judgement including capitalisation rates, discount rates and price per square meter. The valuations of properties under development are also dependent upon the estimated costs to complete and expected developer's profit margin.

**Our response:**

- Evaluating the independent external valuers' objectivity, competence and capabilities;
- Assessing the methodologies used and the appropriateness of key assumptions based on our knowledge of the property industry;
- Checking, on a sample basis, the accuracy and relevance of the input data used; and
- Assessing the reasonableness of the capitalisation rate, discount rates, price per square meter, costs to complete and sell estimated by the management based on our knowledge of the relevant development.

We found the key assumptions were supported by the available evidence.

## OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our 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 judgment 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.

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

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

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

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

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

From the matters communicated with the directors, 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.

**BDO Limited**
*Certified Public Accountants*
**Choi Man On**
Practising Certificate Number: P02410

Hong Kong, 27 April 2022

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

| | Notes | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|
| Turnover | 7 | **1,296,192** | 1,544,536 |
| Cost of sales | 9 | **(729,287)** | (976,343) |
| Gross profit | | **566,905** | 568,193 |
| Other income | 7 | **295,536** | 343,613 |
| Selling and distribution costs | | **(45,460)** | (48,116) |
| Administrative expenses | | **(152,724)** | (135,715) |
| Other operating expenses | | **(32,654)** | (27,975) |
| Research and development costs | 9 | **(228,884)** | (266,177) |
| Fair value gain/(loss) on investment properties | 15 | **2,803** | (21,239) |
| Fair value gain on transfer of properties held for sale to investment properties | | **1,202** | 367 |
| Finance costs | 8 | **(170,621)** | (162,995) |
| Share of loss for investment in an associated company | 17 | **(684)** | — |
| Profit before income tax | 9 | **235,419** | 249,956 |
| Income tax expense | 11(a) | **(69,239)** | (39,418) |
| **Profit for the year attributable to owners of the Company** | | **166,180** | 210,538 |
| **Other comprehensive income, net of tax** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Surplus on revaluation of land and buildings | 14 | **24,356** | 10,685 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translating foreign operations | | **256** | 503 |
| Other comprehensive income for the year, net of tax | | **24,612** | 11,188 |
| **Total comprehensive income for the year attributable to owners of the Company** | | **190,792** | 221,726 |
| Earnings per share — Basic and diluted (RMB) | 13 | **0.135** | 0.171 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **764,018** | 804,923 |
| Investment properties | 15 | **2,164,623** | 2,091,024 |
| Right-of-use assets | 16 | **69,595** | 81,059 |
| Investment in an associate | 17 | **11,316** | — |
| Deferred tax assets | 27 | **27,202** | 26,871 |
| **Total non-current assets** | | **3,036,754** | 3,003,877 |
| **Current assets** | | | |
| Inventories | 18 | **81,486** | 74,006 |
| Properties under development | 19 | **845,067** | 722,050 |
| Properties held for sale | 19 | **1,269,343** | 1,356,712 |
| Trade receivables | 20 | **234,356** | 253,991 |
| Bills receivable | 20 | **105,862** | 47,188 |
| Other receivables, deposits and prepayments | 21 | **337,878** | 231,779 |
| Contract costs | 21 | **4,346** | 3,232 |
| Amounts due from related parties | 34(c) | **3,875** | 1,757 |
| Cash and bank balances | 22 | **2,445,429** | 2,486,422 |
| **Total current assets** | | **5,327,642** | 5,177,137 |
| **Current liabilities** | | | |
| Trade payables | 23 | **757,375** | 908,520 |
| Bills payable | 23 | **105,938** | 100,000 |
| Contract liabilities | 25 | **272,343** | 326,002 |
| Other payables, accruals and receipts in advance | 24 | **212,301** | 200,441 |
| Amounts due to related parties | 34(c) | **138** | 339 |
| Lease liabilities | 16 | **13,895** | 12,703 |
| Bank borrowings | 26 | **921,000** | 1,623,687 |
| Income tax payable | | **147,359** | 95,718 |
| **Total current liabilities** | | **2,430,349** | 3,267,410 |
| **Net current assets** | | **2,897,293** | 1,909,727 |
| **Total assets less current liabilities** | | **5,934,047** | 4,913,604 |

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank borrowings | 26 | **2,510,990** | 1,672,410 |
| Other payables, accruals and receipts in advance | 24 | **7,122** | 15,410 |
| Lease liabilities | 16 | **30,759** | 43,172 |
| Deferred tax liabilities | 27 | **394,984** | 383,212 |
| **Total non-current liabilities** | | **2,943,855** | 2,114,204 |
| **NET ASSETS** | | **2,990,192** | 2,799,400 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28 | **123,314** | 123,314 |
| Reserves | 29(a) | **2,866,878** | 2,676,086 |
| **TOTAL EQUITY** | | **2,990,192** | 2,799,400 |

On behalf of the directors

**Chen Zhi Lie**
*Chairman*

**Geng Wen Qiang**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

| | Share capital RMB'000 (Note 28) | Share premium RMB'000 (Note 29(c)(i)) | Statutory surplus reserve RMB'000 (Note 29(c)(ii)) | Properties revaluation reserve RMB'000 (Note 29(c)(iii)) | Translation reserve RMB'000 (Note 29(c)(iv)) | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | 123,314 | 8,586 | 102,732 | 533,868 | 373 | 1,808,801 | 2,577,674 |
| Profit for the year | – | – | – | – | – | 210,538 | 210,538 |
| Other comprehensive income for the year | – | – | – | 10,685 | 503 | – | 11,188 |
| Total comprehensive income for the year | – | – | – | 10,685 | 503 | 210,538 | 221,726 |
| Transfer between reserves | – | – | 7,304 | – | – | (7,304) | – |
| **Balance at 31 December 2020 and 1 January 2021** | **123,314** | **8,586** | **110,036** | **544,553** | **876** | **2,012,035** | **2,799,400** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **166,180** | **166,180** |
| Other comprehensive income for the year | **–** | **–** | **–** | **24,356** | **256** | **–** | **24,612** |
| Total comprehensive income for the year | **–** | **–** | **–** | **24,356** | **256** | **166,180** | **190,792** |
| Transfer between reserves | **–** | **–** | **371** | **–** | **–** | **(371)** | **–** |
| **Balance at 31 December 2021** | **123,314** | **8,586** | **110,407** | **568,909** | **1,132** | **2,177,844** | **2,990,192** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | 235,419 | 249,956 |
| Adjustments for: | | |
| Depreciation | | |
| — Property, plant and equipment | 50,106 | 43,328 |
| — Right-of-use assets | 13,752 | 13,624 |
| Finance costs | 170,621 | 162,995 |
| Government subsidies | (9,166) | (77,886) |
| Gain on disposal of property, plant and equipment | (141) | (728) |
| Loss on written off of property, plant and equipment | 495 | 4 |
| Fair value (gain)/loss on investment properties | (2,803) | 21,239 |
| Fair value gain on transfer of properties held for sale to investment properties | (1,202) | (367) |
| Impairment on inventories | 8,077 | 191 |
| Share of loss from investment in an associate | 684 | — |
| Interest income | (41,313) | (16,347) |
| **Operating cash flows before working capital changes** | 424,529 | 396,009 |
| Increase in inventories | (15,557) | (2,963) |
| (Increase)/decrease in properties under development and properties held for sale | (27,050) | 5,389 |
| Decrease in trade receivables | 19,635 | 41,616 |
| (Increase)/decrease in bills receivable | (58,674) | 68,169 |
| (Increase)/decrease in other receivables, deposits and prepayments | (106,099) | 88,117 |
| Increase in contract costs | (1,114) | (1,452) |
| Decrease in trade payables | (151,145) | (91,542) |
| Increase/(decrease) in bills payable | 5,938 | (238) |
| (Decrease)/increase in contract liabilities | (53,659) | 221,060 |
| Decrease in other payables, accruals and receipt in advance | (27,396) | (71,118) |
| Change in amounts due from related parties | (2,319) | 1,271 |
| **Cash generated from operations** | 7,089 | 654,318 |
| Income tax paid | (14,278) | (25,137) |
| **Net cash (used in)/generated from operating activities** | (7,189) | 629,181 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

| | Note | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(40,880)** | (31,024) |
| Capital injection for investment in an associate | | **(12,000)** | — |
| (Increase)/decrease in pledged bank balances | | **(273)** | 6 |
| Increase in restricted bank deposit | | **(42)** | (21,622) |
| Proceeds from sale of property, plant and equipment | | **512** | 1,849 |
| Interest received | | **41,313** | 16,347 |
| **Net cash used in investing activities** | | **(11,370)** | (34,444) |
| **Cash flows from financing activities** | | | |
| Repayment of bank borrowings | | **(1,658,407)** | (1,289,056) |
| Interest paid | | **(185,526)** | (179,086) |
| Proceeds from government grants | | **40,138** | 24,193 |
| Proceeds from bank borrowings | | **1,794,300** | 2,043,910 |
| Repayment of principal portion of lease liabilities | | **(13,509)** | (12,027) |
| **Net cash (used in)/generated from financing activities** | | **(23,004)** | 587,934 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(41,563)** | 1,182,671 |
| **Cash and cash equivalents at beginning of year** | | **2,379,820** | 1,196,647 |
| **Effect of foreign exchange rate changes on cash and cash equivalent** | | **255** | 502 |
| **Cash and cash equivalents at the end of year** | 22 | **2,338,512** | 2,379,820 |

## 1. GENERAL

EVOC Intelligent Technology Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC"). The address of its registered office and principal place of business is located at EVOC Technology Building, No. 31 Gaoxinzhongsi Avenue, Nanshan District, Shenzhen, the PRC. At 31 December 2021, the directors of the Company consider the ultimate holding company of the Company to be EVOC Hi-Tech Holding Group Co., Ltd, which was incorporated in the PRC and the ultimate controlling shareholder of the Company to be Mr. Chen Zhi Lie.

The Group, comprising the Company and its subsidiaries, is principally engaged in the research and development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories and development of properties in the PRC. The principal activities of the subsidiaries are set out in Note 31 to the consolidated financial statements.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new or amended HKFRSs

The below new standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2021:

***Interest Rate Benchmark Reform — IBOR 'phase 2' (Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16)***

These amendments to various HKFRS standards are mandatorily effective for reporting periods beginning on or after 1 January 2021. The amendments provide relief to the Group in respect of certain loans (note 26) whose contractual terms are affected by interest benchmark reform, if any. See the applicable note for further details on how the amendments affected the Group.

***Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to HKFRS 16)***

Effective 1 June 2020, HKFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

(i) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(ii) The reduction is lease payments affects only payments originally due on or before 30 June 2021; and

(iii) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in HKFRS 16 in accounting for the concession.

Accounting for the rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

### (a) Adoption of new or amended HKFRSs (Continued)

***Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to HKFRS 16) (Continued)***

On 9 April 2021, the HKICPA issued another amendment to HKFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021, which extended the above practical expedient to reductions in lease payments that were originally due on or before 30 June 2022. This amendment is effective for annual periods beginning on or after 1 April 2021 with earlier application permitted including the financial statements not authorised for issue at 9 April 2021. The amendment is to be applied mandatorily by those entities that have elected to apply the previous amendment Covid-19-Related Rent Concessions. The Group has early adopted the amendment Covid-19-Related Rent Concessions beyond 30 June 2021 in the current annual financial statements.

The Group had not negotiated any rent concessions with lessors that affected payments originally due after 30 June 2021 but before 30 June 2022.

### (b) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts — Cost of Fulfilling a Contract (Amendments to HKAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to HKAS 16);
- Annual Improvements to HKFRS 2018–2020 (Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41); and
- References to Conceptual Framework (Amendments to HKFRS 3).

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to HKAS 1 and HKFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to HKAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to HKAS 12).

The Group does not expect any other new or amended HKFRSs issued by the HKICPA, but not yet effective, to have a material impact on the Group.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain land and buildings and investment properties, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

### (c) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("RMB"), which is both the functional currency and presentation currency of the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

### (b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

### (c) Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An associates is accounted for using the equity method whereby it is initially recognised at cost and thereafter, its carrying amount is adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate is not recognised unless there is an obligation to make good those losses.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Associate (Continued)

Profits and losses arising on transactions between the Group and its associate is recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions are eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred, they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, all amounts previously recognised in other comprehensive income in relation to that associate are recognised on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest it that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

In the Company's statement of financial position, interest in an associate is carried at cost less impairment losses, if any. The results of the associate is accounted for by the Company on the basis of dividends received and receivable during the year.

### (d) Property, plant and equipment

Owner-occupied leasehold land and buildings are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of properties revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the properties revaluation reserve. When the use of a property changes from owner-occupied to investment property, the property is also remeasured to fair value prior to the reclassification.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Property, plant and equipment (Continued)

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the properties revaluation reserve to retained earnings.

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

| | |
|---|---|
| Land and buildings | Over the shorter of lease terms of related leasehold land or 50 years |
| Leasehold improvements | 18–20% |
| Plant and machinery | 9–10% |
| Furniture, fixtures and equipment | 18–20% |
| Motor vehicles | 18–20% |

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

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

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

### (e) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Leasing

***The Group as a lessee***

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

*Right-of-use asset*

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

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 and are carried at fair value. The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at revalued amount. For right-of-use asset that meets the definition of an investment property, they are carried at fair value. For right-of-use asset that relates to the class of land and building held for own use which are carried using the revaluation model, the Group has elected not to apply the revaluation model to such right-of-use assets.

The depreciation method used for right-of-use assets is the same as that used for property, plant and equipment. 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. The depreciation rates of the different classes of right-of-use assets are as follow:

| | |
|---|---|
| Leasehold land | Over the shorter of lease terms of related leasehold land or 50 years |
| Office properties | Over the lease terms |

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Leasing (Continued)

***The Group as a lessee (Continued)***

*Lease liability*

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

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

***The Group as a lessor***

The Group has leased out its investment property to a number of tenants. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

### (g) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence, both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Financial Instruments

#### *(i) Financial assets*

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

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

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

*Debt instruments*

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

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

#### *(ii) Impairment loss on financial assets*

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Financial Instruments (Continued)

#### *(ii) Impairment loss on financial assets (Continued)*

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

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

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

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

#### *(iii) Financial liabilities*

The Group classifies its financial liabilities at amortised costs. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade payables, bills payable, other payables and accruals, amounts due to related parties and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

#### *(iv) Effective interest method*

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Financial Instruments (Continued)

#### *(v) Equity instruments*

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

#### *(vi) Derecognition*

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

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

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

### (i) Inventories

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

### (j) Properties under development and properties held for sale

Properties under development and properties held for sale are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to be completed beyond normal operating cycle.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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

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

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

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

***Sales of special computer products, electronic products and accessories and chemical products***

Customers obtain control of special computer and electronic products and accessories and chemical products when the goods are delivered to and have been accepted. Revenue is thus recognised upon the customers accepted the special computer products, electronic products and accessories and chemical products. There is generally only one performance obligation. Invoices are usually payable within 60 days.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Revenue recognition (Continued)

***Properties development***

Revenue from sale of properties developed for sale in the PRC in the ordinary course of business is recognised at the point in time when control of completed property is transferred to the customer, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and the collection of the consideration is probable. No revenue is recognised over time since the contract does not give the Group an enforceable right to payment for performance completed to date.

Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under contract liabilities. There is generally only one performance obligation and the consideration include no variable amount.

***Other income***

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant leases.

Dividend income is recognised when the right to receive the dividend is established.

***Contract liabilities***

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

***Contract costs***

Contract costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (mainly sales commissions) as an asset if it expects to recover these costs. The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Income taxes

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

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

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

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on monetary items that forms part of the Company's investment in a foreign operation, in which case, such exchange differences are reclassified to other comprehensive income in preparing the consolidated financial statements. Exchange differences arising on retranslation of non-monetary items carried at fair value are included in the profit and loss except for differences arising on retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities'separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the translation reserve.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Employees' benefits

#### *(i) Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

#### *(ii) Retirement benefits*

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

#### *(iii) Termination benefits*

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Impairment of assets (other than financial assets)

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

- Property, plant and equipment under cost model;
- Interests in leasehold land held for own use under operating leases under cost model;
- Investments in subsidiaries; and
- Investment in an associate.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### (p) Capitalisation of borrowing costs

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

### (q) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as liabilities in the statements of financial position and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### (r) Provisions and contingent liabilities

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (s) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) Both entities are joint ventures of the same third party,

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity,

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group,

(vi) The entity is controlled or jointly controlled by a person identified in (a),

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

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

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

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

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

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### (a) Critical judgements in applying accounting policies

***Deferred taxation on investment properties***

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment properties portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time.

Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined whether the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted and the Group has recognised deferred tax on changes in fair value of investment properties on the basis that the deferred tax reflects the tax consequences that will follow from the manner in which the Group expects at the end of the reporting period to recover the carrying amount of the investment properties.

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

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Judgement is made on an individual property by property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made when determining that the portion used in the production or supply of goods or services or for administrative purposes is insignificant.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### (b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in the financial statements, other key sources of estimation uncertainty that have significant risks of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

***Estimated impairment of construction in progress and lease prepayments***

The impairment loss for construction in progress and payment for leasehold land held for own use under operating lease is recognised when the carrying amounts of these assets exceed their estimated recoverable amounts in accordance with the accounting policies stated in Notes 4(d) and 4(f) to the consolidated financial statements. The recoverable amounts have been determined based on the valuation conducted by an independent firm of professional valuers, with reference to the best available information obtained at the end of each reporting period. Any favourable or unfavourable changes to the assumptions of market conditions would result in changes in the carrying amounts of the assets.

***Estimated impairment loss on trade and other receivables***

The Group recognises allowance for impairment loss on trade and other receivables when the recoverability of the outstanding debts is uncertain. Such allowance is estimated after taking into account various considerations including the age of the debts, creditworthiness of the debtors, past track records for recovery of debts with similar credit risk characteristics and market conditions. Where the expectation is different from the original estimates, such difference will impact the carrying amounts of receivables and allowance for impairment losses in the period in which such estimate had been changed.

***Revaluation of investment properties and land and buildings***

In determining the fair values of investment properties and land and buildings, the valuer has based on valuation techniques which involve, inter alia, certain estimates including comparable transactions in the relevant market, current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, directors have exercised judgement and are satisfied that the method of valuation is appropriate with reference to the current market condition.

***Net realisable value of properties under development and properties held for sale***

Management determines the net realisable value of properties under development and properties held for sale by using market valuation report available from independent qualified professional valuer. Such valuations are made based on certain assumptions, which are subject to uncertainties and might materially differ from the actual result. In making the judgement, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the reporting date. These estimates are regularly compared to actual market data and actual transactions in the market.

***Classification of the investment in an associate***

The Group invested in an associate as at 31 December 2021. The classification on whether this is an associate requires the use of judgement. For the investment in an associate, the Group has power to participate in the financial and operating policy decisions of the company but is not control or joint control of those policies. Therefore, the Group has significant influence over this company. Accordingly, such investment is classified as an associate of the Group and accounted for using equity method.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### (b) Key sources of estimation uncertainty (Continued)

***PRC enterprise income tax***

The Group is subject to enterprise income taxes in Mainland China. Due to the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provision in the period in which the differences realise.

***PRC land appreciation tax ("LAT")***

LAT in Mainland China is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sale of properties less deductible expenditures including land costs, borrowing costs, other property development expenditures.

When calculating the LAT, the Group needs to estimate the deductible expenditures and make judgement on the relevant tax rate on individual property basis under the relevant applicable tax laws and regulations. Given the uncertainties of the calculation basis of LAT to be interpreted by the local tax bureau, the actual outcomes may be higher or lower than that estimated. Where the final tax outcome of these matters is different for the amounts that were initially recorded, such difference will impact the LAT expense and LAT provision in the period in which the differences are realised.

## 6. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers (the "CODM") that are used to make strategic decisions.

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:

— Research and development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories

— Development of properties for sale and investment purposes

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Corporate expenses, corporate assets and corporate liabilities are not allocated to the reportable segments as they are not included in the measure of the segments' profit, segments' assets and segments' liabilities that are used by the CODM for assessment of segment performance.

## 6. SEGMENT INFORMATION (CONTINUED)

**For the year ended 31 December 2021**

| | Special computer products and electronic products and accessories RMB'000 | Property development RMB'000 | Total RMB'000 |
|---|---|---|---|
| External revenue | 1,096,337 | 199,855 | 1,296,192 |
| Reportable segment profit | 315,373 | 81,719 | 397,092 |
| Amounts included in the measure of segment profit or loss or segment assets: | | | |
| Interest income | 40,299 | 1,014 | 41,313 |
| Research and development costs | (228,884) | — | (228,884) |
| Government subsidies income | 45,988 | 71 | 46,059 |
| Gain on disposal of property, plant and equipment | 141 | — | 141 |
| Rental from investment properties, net | 132,133 | 19,837 | 151,970 |
| Other income — others | 29,226 | 6,562 | 35,788 |
| Depreciation: | | | |
| — Property, plant and equipment | (45,981) | (4,125) | (50,106) |
| — Right-of-use assets | (13,752) | — | (13,752) |
| Fair value gain/(loss) on investment properties | 6,867 | (4,064) | 2,803 |
| Fair value gain on transfer of properties held for sale to investment properties | — | 1,202 | 1,202 |
| Reportable segment assets | 3,504,273 | 3,139,689 | 6,643,962 |
| Additions to non-current assets | 33,680 | 7,200 | 40,880 |
| Reportable segment liabilities | (858,631) | (730,404) | (1,589,035) |

## 6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2020

| | Special computer products and electronic products and accessories RMB'000 | Property development RMB'000 | Total RMB'000 |
|---|---|---|---|
| External revenue | 1,319,424 | 225,112 | 1,544,536 |
| Reportable segment profit | 313,706 | 82,407 | 396,113 |
| Amounts included in the measure of segment profit or loss or segment assets: | | | |
| Interest income | 15,701 | 646 | 16,347 |
| Research and development costs | (266,177) | — | (266,177) |
| Government subsidies income | 100,757 | 81 | 100,838 |
| Gain on disposal of property, plant and equipment | 727 | 3 | 730 |
| Rental from investment properties, net | 138,323 | 18,550 | 156,873 |
| Other income — others | 37,371 | 6,685 | 44,056 |
| Depreciation: | | | |
| — Property, plant and equipment | (28,497) | (14,831) | (43,328) |
| — Right-of-use assets | (12,903) | (721) | (13,624) |
| Impairment on inventories | (191) | — | (191) |
| Fair value loss on investment properties | (2,405) | (18,834) | (21,239) |
| Fair value gain on transfer of properties held for sale to investment properties | — | 367 | 367 |
| Reportable segment assets | 3,200,103 | 3,341,048 | 6,541,151 |
| Additions to non-current assets | 27,822 | 3,202 | 31,024 |
| Reportable segment liabilities | (962,719) | (893,480) | (1,856,199) |

Notes:

**(a)** The following is an analysis of the Group's revenue from its major customers which represent 10% or more of the Group's revenues during the year and is attributable to the reportable segment of "research and development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories":

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| Customer A | **281,492** | 665,156 |
| Customer B | **158,440** | — |

## 6. SEGMENT INFORMATION (CONTINUED)

Notes: (Continued)

**(b) Reconciliation of reportable segment revenues, results, assets and liabilities**

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Revenue | | |
| Total of reportable segments' external revenue and consolidated revenue | **1,296,192** | 1,544,536 |

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Profit before income tax | | |
| Total of reportable segments' profit | **397,092** | 396,113 |
| Unallocated other income | **20,265** | 24,769 |
| Unallocated corporate expenses | **(11,317)** | (7,931) |
| Finance costs | **(170,621)** | (162,995) |
| Profit before income tax | **235,419** | 249,956 |

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Total of reportable segments' assets | | |
| Reportable segment assets | **6,643,962** | 6,541,151 |
| Deferred tax assets | **27,202** | 26,871 |
| Unallocated property, plant and equipment | **244,988** | 245,355 |
| Unallocated investment properties | **1,374,778** | 1,315,093 |
| Unallocated corporate assets | **73,466** | 52,544 |
| Consolidated total assets | **8,364,396** | 8,181,014 |

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Total of reportable segments' liabilities | | |
| Reportable segment liabilities | **1,589,035** | 1,856,199 |
| Unallocated bank borrowings | **3,242,826** | 3,046,485 |
| Deferred tax liabilities | **394,984** | 383,212 |
| Income tax payable | **147,359** | 95,718 |
| Consolidated total liabilities | **5,374,204** | 5,381,614 |

## 6. SEGMENT INFORMATION (CONTINUED)

Notes: (Continued)

**(c) Geographic information**

All revenue from external customers and non-current assets other than deferred tax assets are located in the PRC (place of domicile).

The geographical location of customers is based on the location at which the goods were delivered and the services were provided. The geographical location of the non-current assets other than deferred tax assets is based on the physical location of the assets.

In the following table, revenue is disaggregated by major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment.

| | Special computer products and electronic products and accessories | | Property development | | Total | |
|---|---|---|---|---|---|---|
| | **2021 RMB'000** | 2020 RMB'000 | **2021 RMB'000** | 2020 RMB'000 | **2021 RMB'000** | 2020 RMB'000 |
| **Major products and services** | | | | | | |
| Sales of special computer products | **813,785** | 650,511 | **—** | — | **813,785** | 650,511 |
| Sales of mobile phones and accessories | **282,552** | 668,913 | **—** | — | **282,552** | 668,913 |
| Sales of properties | **—** | — | **199,855** | 225,112 | **199,855** | 225,112 |
| | **1,096,337** | 1,319,424 | **199,855** | 225,112 | **1,296,192** | 1,544,536 |
| **Timing of revenue recognition** | | | | | | |
| At a point in time | **1,096,337** | 1,319,424 | **199,855** | 225,112 | **1,296,192** | 1,544,536 |

## 7. TURNOVER AND OTHER INCOME

Turnover represents the invoiced value of goods sold and services provided to customers and excludes value added tax. The amounts of each significant category of revenue recognised during the year are as follows:

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| Turnover | | |
| Sales of special computer products | **813,785** | 650,511 |
| Sales of mobile phones and accessories | **282,552** | 668,913 |
| Sales of properties | **199,855** | 225,112 |
| | **1,296,192** | 1,544,536 |

The following table provides information about trade receivables and contract liabilities from contracts with customers.

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| Receivables (Note 20) | **234,356** | 253,991 |
| Contract liabilities (Note 25) | **272,343** | 326,002 |

## 7. TURNOVER AND OTHER INCOME (CONTINUED)

The contract liabilities mainly relate to the advance consideration received from customers. RMB184,359,000 of the contract liabilities as of 31 December 2020 has been recognised as revenue for the year ended 31 December 2021 at the point in time when the customers obtained control of the assets.

### Unsatisfied performance obligations

As at 31 December 2021, the performance obligation that are unsatisfied were approximately RMB272,343,000 (2020: RMB326,002,000). The Group will recognise the expected revenue in future based on the appropriate accounting policies as described in Note 4(k), which is expected to occur within next 24 months from the end of the reporting period.

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Other income | | |
| Gross rentals from investment properties | **153,114** | 157,689 |
| Less: direct operating expenses (including repairs and maintenance) arising from leasing of investment properties reimbursed from tenants | **(1,144)** | (816) |
| | **151,970** | 156,873 |
| Interest income | **41,313** | 16,347 |
| Value-added tax ("VAT") concessions (Note (a)) | **20,265** | 25,236 |
| Government subsidies (Note (b)) | **46,059** | 100,838 |
| Repairs and maintenance income | **4,572** | 4,992 |
| Exchange gain/(loss) | **2,693** | (778) |
| Compensation for termination of lease | **1,274** | 9,596 |
| Material and scrap sales income | **2,307** | 4,707 |
| Gain on disposal of property, plant and equipment | **141** | 728 |
| Service income | **8,935** | 5,403 |
| Sundry income | **16,007** | 19,671 |
| | **295,536** | 343,613 |

Notes:

(a) VAT refunds were obtained from local tax authority in respect of sales of approved software and integrated circuit products.

(b) Financial incentives were granted by the PRC government for development of high-technology products and purchases of specified property, plant and equipment for development of specified projects. Included in the amount of government grants recognised as other income for the year ended 31 December 2021, RMB36,457,000 (2020: RMB22,952,000) related to grants that the Group has fulfilled the relevant granting criteria immediately upon receipt of payment and the grant was not capital in nature and RMB9,602,000 (2020: RMB12,229,000) related to grants that are recognised over the expected useful lives of the relevant specified property, plant and equipment for development of specified project.

For the year ended 31 December 2020, RMB43,772,000 and RMB21,885,000 related to grants that compensated for research and development costs that were incurred and expensed for development of high-technology products during the current year and the preceding year respectively. There were no such grant as at 31 December 2021.

## 8. FINANCE COSTS

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Interest on bank borrowings | **180,475** | 175,939 |
| Less: Interest capitalised | **(14,905)** | (19,144) |
| | **165,570** | 156,795 |
| Interest on lease liabilities | **2,545** | 3,053 |
| Other interest expenses (Note) | **2,463** | 3,104 |
| Bank charges | **43** | 43 |
| | **170,621** | 162,995 |

Borrowing costs capitalised during the year arose mainly on the general borrowing pool and are calculated by applying a capitalisation rate of 5.50% (2020: 5.46%) to expenditure on qualifying assets for the year ended 31 December 2021.

Note: Other interest expenses represents the interest expenses incurred for the discounting of bank acceptance bills.

## 9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Auditor's remuneration | **2,008** | 2,049 |
| Cost of inventories recognised as an expense (Note (a)) | **646,779** | 876,953 |
| Cost of sales of properties recognised as an expense | **82,508** | 99,390 |
| Depreciation: | | |
| — Property, plant and equipment | **50,106** | 43,328 |
| — Right-of-use-assets | **13,752** | 13,624 |
| Foreign exchange difference | **416** | 778 |
| Gain on disposal of property, plant and equipment | **(141)** | (728) |
| Loss on written off of property, plant and equipment | **495** | 4 |
| Impairment on inventories | **8,077** | 191 |
| Research and development costs (Note (b)) | **228,884** | 266,177 |
| Short-term leases expenses | **1,937** | 2,103 |
| Staff costs (including directors' emoluments): | | |
| Wages, salaries and allowances | **117,867** | 98,849 |
| Bonus | **12,091** | 7,293 |
| Contributions to retirement benefits schemes (Note (c)) | **14,114** | 4,490 |
| | **144,072** | 110,632 |

Notes:

(a) Cost of inventories sold includes, but not limited to, the staff costs of RMB14,602,000 (2020: RMB14,203,000), depreciation charges of RMB1,204,000 (2020: RMB1,152,000), costs of raw materials and parts used in assembling of mobiles phones of RMB269,416,000 (2020: RMB601,213,000) and subcontracting fees in assembling of mobile phones of RMB7,532,000 (2020: RMB6,073,000).

(b) Research and development costs are included in other operating expenses and mainly consists of depreciation charges of RMB4,758,000 (2020: RMB4,050,000), consumable and material expenses amounting to RMB106,708,000 (2020: RMB190,799,000), staff costs amounting to RMB57,413,000 (2020: RMB37,848,000) and inspection fee amounting to RMB33,120,000 (2020: RMB7,261,000).

(c) At 31 December 2021, the Group had no forfeited contributions available to reduce its future contributions to the retirement benefits schemes (2020: Nil).

## 10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments paid or payable to directors are as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Fees | **64** | 84 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **819** | 707 |
| Bonus | **129** | 65 |
| Contributions to retirement benefits schemes | **61** | 41 |
| | **1,009** | 813 |
| | **1,073** | 897 |

### (a) Independent non-executive Directors

The directors' fees paid or payable to independent non-executive directors during the reporting period are as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Mr. Yu Tat Chi, Michael (Note (i)) | **17** | 35 |
| Mr. Wen Bing (Note (ii)) | **—** | 7 |
| Mr. Dong Li Xin (Note (iii)) | **—** | 7 |
| Mr. Zhang Da Ming (Note (iv)) | **7** | 12 |
| Mr. Ling Chun Kwok (Note (v)) | **18** | 18 |
| Ms. Wu Yan Nan (Note (vi)) | **12** | 5 |
| Ms. Li Qian (Note (vii)) | **5** | — |
| Ms. Xu Hai Hong (Note (viii)) | **5** | — |
| | **64** | 84 |

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

There were no other emoluments payable to the independent non-executive directors during the reporting period (2020: Nil).

## 10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

### (a) Independent non-executive Directors (Continued)

Notes:

(i) Mr. Yu Tat Chi, Michael resigned as an independent non-executive director on 21 May 2021.

(ii) Mr. Wen Bing resigned as an independent non-executive director on 29 June 2020.

(iii) Mr. Dong Li Xin resigned as an independent non-executive director on 29 June 2020.

(iv) Mr. Zhang Da Ming resigned as an independent non-executive director on 21 May 2021.

(v) Mr. Ling Chun Kwok was appointed as an independent non-executive director on 29 June 2020 and resigned on 21 May 2021.

(vi) Ms. Wu Yan Nan was appointed as an independent non-executive director on 29 June 2020.

(vii) Ms. Li Qian was appointed as an independent non-executive director on 21 May 2021.

(viii) Ms. Xu Hai Hong was appointed as an independent non-executive director on 21 May 2021.

### (b) Executive Directors

The emoluments of executive directors during the reporting period are set out below:

| | Fees | Salaries, allowances and benefits in kind | Bonus | Contributions to retirement benefits schemes | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2021** | | | | | |
| Mr. Chen Zhi Lie | **–** | **573** | **36** | **61** | **670** |
| Mr. Tso Cheng Shun (Note (i)) | **–** | **15** | **–** | **–** | **15** |
| Mr. Geng Wen Qiang | **–** | **231** | **93** | **–** | **324** |
| | **–** | **819** | **129** | **61** | **1,009** |
| **2020** | | | | | |
| Mr. Chen Zhi Lie | – | 473 | 43 | 41 | 557 |
| Mr. Tso Cheng Shun (Note (i)) | – | 27 | 3 | – | 30 |
| Mr. Geng Wen Qiang | – | 207 | 19 | – | 226 |
| | – | 707 | 65 | 41 | 813 |

Salaries, allowances and other benefits paid to or for the executive directors are generally emoluments in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

Note:

(i) Mr. Tso Cheng Shun resigned as an executive director on 21 May 2021.

## 10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

### (c) Supervisors

The emoluments of supervisors during the reporting period are set out below:

| | Salaries, allowances and benefits in kind RMB'000 | Bonus RMB'000 | Contributions to retirement benefits schemes RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2021** | | | | |
| Ms. Pu Jing | **5** | **—** | **—** | **5** |
| Mr. Zhan Guo Nian | **216** | **100** | **46** | **362** |
| Mr. Zhang Zheng An | **178** | **69** | **41** | **288** |
| Mr. Ng Mun Hong | **6** | **—** | **—** | **6** |
| Ms. Kwok Ka Man | **6** | **—** | **—** | **6** |
| Ms. Liu Jia Yi | **5** | **—** | **—** | **5** |
| | **416** | **169** | **87** | **672** |
| **2020** | | | | |
| Ms. Pu Jing | 108 | — | — | 108 |
| Mr. Zhan Guo Nian | 172 | 17 | 20 | 209 |
| Mr. Zhang Zheng An | 152 | 14 | 19 | 185 |
| Mr. Ng Mun Hong | 11 | 1 | — | 12 |
| Ms. Kwok Ka Man | 11 | 1 | — | 12 |
| | 454 | 33 | 39 | 526 |

**(d)** During the reporting period, no emoluments were paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office (2020: Nil). There were no arrangements under which any director or supervisor waived or agreed to waive any emoluments in respect of each of the reporting period.

## 10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

### (e) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one of them was director of the Company in respect of the reporting period (2020: one). The emoluments of the remaining four (2020: four) individuals, during the reporting period were as follows:

| | **2021<br>RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,945** | 1,727 |
| Bonus | **35** | 157 |
| Contributions to retirement benefits schemes | **91** | 96 |
| | **2,071** | 1,980 |

The emoluments of the five highest paid individuals were within the following band:

| | **2021<br>No. of individuals** | 2020<br>No. of individuals |
|---|---|---|
| Nil to HK$1,000,000 | **5** | 5 |

During the year, no emoluments 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 (2020: Nil).

## 11. INCOME TAX EXPENSE

(a) The amount of income tax expense in the consolidated statement of comprehensive income represents:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Current tax — the PRC** | | |
| Enterprise income tax ("EIT") | | |
| — Current year | 23,671 | 8,265 |
| — Over provision in respect of prior years | — | (2,558) |
| Land appreciation tax ("LAT") | | |
| — Current year | 42,248 | 39,038 |
| | 65,919 | 44,745 |
| **Deferred taxation** (Note 27) | | |
| Origination and reversal of temporary differences, net | 3,320 | (5,327) |
| Income tax expense | 69,239 | 39,418 |

The Company and a subsidiary which have been approved as new and high technology enterprise are entitled to a concessionary tax rate of 15% for a period of three years. The Company and a subsidiary need to re-apply for the preferential tax treatment when the preferential tax period expires on 10 December 2023.

The income tax charge for the year of RMB23,671,000 (2020: RMB8,265,000) is after deduction of the effect of the super deduction of research expenses.

Other subsidiaries are subject to income tax rate of 25% (2020: 25%) during the reporting period.

The PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax under a two-tiered profits tax rates regime. The first HK$2 million of profits are taxed at 8.25%, and the remaining profits above HK$2 million are taxed at 16.5%.

No Hong Kong profits tax has been provided for the years ended 31 December 2021 and 2020 as there was no estimated assessable profit.

## 11. INCOME TAX EXPENSE (CONTINUED)

(b) The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Profit before income tax expense | **235,419** | 249,956 |
| Tax at applicable tax rate of 25% (2020: 25%) | **58,855** | 62,489 |
| Effect of tax exemption, reduction and concessions | **(24,812)** | (78,906) |
| Tax effect of non-taxable income | **(17,530)** | (15,777) |
| Tax effect of non-deductible expenses | **2,494** | 6,902 |
| Tax effect of tax losses and temporary differences not recognised | **26,098** | 38,977 |
| Utilisation of tax losses previously not recognised | **(18,114)** | (10,747) |
| LAT | **42,248** | 39,038 |
| Over provision in respect of prior years | **—** | (2,558) |
| Income tax expense | **69,239** | 39,418 |

## 12. DIVIDENDS

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

## 13. EARNINGS PER SHARE

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

| | 2021 | 2020 |
|---|---|---|
| Profit for the year attributable to the owners of the Company for the purpose of earnings per share calculation (RMB'000) | **166,180** | 210,538 |
| Weighted average number of domestic and H shares in issue | **1,233,144,000** | 1,233,144,000 |
| Basic and diluted earnings per share (RMB) | **0.135** | 0.171 |

There was no potential domestic and H shares in issue during the reporting period, the amount of diluted earnings per share is the same as basic earnings per share for both years.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | |
| As at 1 January 2020 | 719,935 | 110,613 | 26,254 | 119,916 | 16,521 | 18,538 | 1,011,777 |
| Additions | – | 4,069 | – | 10,114 | 618 | 16,223 | 31,024 |
| Transfer from construction in progress | – | 12,690 | – | – | – | (12,690) | – |
| Disposals | – | (288) | (7,096) | (859) | – | – | (8,243) |
| Written off | – | (2,340) | – | (39) | – | – | (2,379) |
| Revaluation deficit | (3,530) | – | – | – | – | – | (3,530) |
| As at 31 December 2020 and 1 January 2021 | **716,405** | **124,744** | **19,158** | **129,132** | **17,139** | **22,071** | **1,028,649** |
| Additions | **388** | **5,379** | **1,207** | **24,917** | **–** | **8,989** | **40,880** |
| Transfer from construction in progress | **–** | **9,652** | **–** | **–** | **–** | **(9,652)** | **–** |
| Disposals | **–** | **–** | **(4,889)** | **(844)** | **(18)** | **–** | **(5,751)** |
| Written off | **–** | **–** | **–** | **(1,868)** | **(655)** | **–** | **(2,523)** |
| Transfer to investment properties (Note (a)) | **(63,287)** | **–** | **–** | **–** | **–** | **–** | **(63,287)** |
| Revaluation surplus | **15,044** | **–** | **–** | **–** | **–** | **–** | **15,044** |
| As at 31 December 2021 | **668,550** | **139,775** | **15,476** | **151,337** | **16,466** | **21,408** | **1,013,012** |
| **Accumulated depreciation:** | | | | | | | |
| As at 1 January 2020 | – | 90,083 | 20,280 | 84,118 | 13,190 | – | 207,671 |
| Charge for the year | 17,776 | 16,002 | 555 | 8,259 | 736 | – | 43,328 |
| Written back on disposal | – | (100) | (6,380) | (642) | – | – | (7,122) |
| Written back on written off | – | (2,340) | – | (35) | – | – | (2,375) |
| Eliminated on revaluation | (17,776) | – | – | – | – | – | (17,776) |
| As at 31 December 2020 and 1 January 2021 | **–** | **103,645** | **14,455** | **91,700** | **13,926** | **–** | **223,726** |
| Charge for the year | **17,430** | **21,534** | **625** | **10,078** | **439** | **–** | **50,106** |
| Written back on disposal | **–** | **–** | **(4,620)** | **(743)** | **(17)** | **–** | **(5,380)** |
| Written back on written off | **–** | **–** | **–** | **(1,373)** | **(655)** | **–** | **(2,028)** |
| Eliminated on revaluation | **(17,430)** | **–** | **–** | **–** | **–** | **–** | **(17,430)** |
| As at 31 December 2021 | **–** | **125,179** | **10,460** | **99,662** | **13,693** | **–** | **248,994** |
| **Carrying value:** | | | | | | | |
| As at 31 December 2021 | **668,550** | **14,596** | **5,016** | **51,675** | **2,773** | **21,408** | **764,018** |
| As at 31 December 2020 | 716,405 | 21,099 | 4,703 | 37,432 | 3,213 | 22,071 | 804,923 |

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) For the year ended 31 December 2021, the use of certain properties with a total carrying amount and fair value of RMB63,287,000 have changed to investment property purposes, as evidenced by the end of self-occupation for office use and by the entering into by the Group of long term lease agreements with tenants and hence these properties were transferred to investment properties.

(b) The fair value of the Group's land and buildings in the PRC at 31 December 2021 and 2020 were with reference to valuation carried out by qualified valuers from CBRE Limited, an independent firm of chartered surveyors.

The valuations were carried out in accordance with HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors. The revaluation surplus net of applicable deferred taxes was credited to properties revaluation reserve.

Had the revalued land and buildings been measured at historical cost less accumulated depreciation, the carrying values of the Group as at 31 December 2021 would have been RMB366,414,000 (2020: RMB396,776,000).

(c) The fair value of the Group's land and buildings is a level 3 recurring fair value measurements using significant unobservable inputs. During the years, there were no transfers of fair value measurements between level 1 and level 2, and no transfers into or out of level 3. A reconciliation of the opening and closing fair value balance is provided below.

| | **2021**<br>**RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| At beginning of year | **716,405** | 719,935 |
| Addition | **388** | — |
| Depreciation charge | **(17,430)** | (17,776) |
| Transfer to investment properties | **(63,287)** | — |
| Revaluation gain included in other comprehensive income | **32,474** | 14,246 |
| At end of year | **668,550** | 716,405 |

There were no changes to the valuation techniques during the year.

For the Group's land and buildings in the PRC as at 31 December 2021 and 2020, the valuation of the leasehold land and buildings was determined using depreciated replacement cost approach, a weight of income capitalisation approach and income approach — discounted cash flow approach, a weight of direct comparison approach and income approach — discounted cash flow approach and direct comparison approach.

For the buildings valued using the depreciated replacement cost approach, the fair value is based on estimated new replacement cost of the buildings and other site works from which adjustments are then made to account for age, condition, and functional obsolescence, while taking into account the site formation cost and those public utilities connection charges to the properties. These adjustments are based on unobservable inputs. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of buildings.

For the land and buildings valued using the income approach — discounted cash flow approach, fair value is based on assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of net cash flows on a property interest. A market-derived discount rate is applied to the projected net cash flow in order to establish the present value of the income stream associated with the asset.

For the land and buildings valued using the income capitalisation approach, the fair value is based on rental income which can be derived from the existing leases with due allowance for the revisionary income potential of the leases, which are then capitalised into the value at appropriate rates. The key inputs are capitalisation rates and monthly rent using direct market comparables.

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(c) (Continued)

For the land and buildings valued using a weighting of income capitalisation approach and income approach — discounted cash flow approach, a suitable weighting has been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is capitalisation rate, discount rate, average market rent growth rate and market rent.

For the land and buildings valued using a weighting of direct comparison approach and income approach — discounted cash flow approach, a suitable weighting has been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is price per square meter.

For the buildings valued using the direct comparison approach, the fair value is based on prices for recent market transactions in similar properties and adjusted to reflect the conditions and locations of the Group's properties. The most significant input into this valuation approach is price per square meter and taking into account of time of transaction, location and other individual factors such as size of property, age of property, site view and building quality, etc.

Information about fair value measurements using significant unobservable inputs (Level 3) is provided below:

| Description | Fair value (RMB'000) 2021 | Fair value (RMB'000) 2020 | Valuation technique(s) | Significant unobservable inputs | Range of unobservable inputs 2021 | Range of unobservable inputs 2020 | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| i) Buildings in the PRC | **142,303** | 142,303 | Depreciated replacement cost approach | Estimated cost of construction sq.m, taking into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use | **RMB6,300/ sq.m** | RMB6,300/sq.m | Higher the estimated cost of construction per sq.m will result in correspondingly higher fair value |
| | | | | Age adjustment on the cost of buildings, taking into account of remaining useful life of buildings | **28%** | 26% | Higher the rate of age adjustment on the cost of buildings will result in correspondingly lower fair value |
| ii) Leasehold land and buildings in the PRC | **225,846** | 263,694 | Income capitalisation approach | Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation | **5.5%** | 5.5% | The higher the capitalisation rate, the lower the fair value |
| | | | Income approach — discounted cash flow approach | Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design | **RMB24/sq.m. to RMB51/sq.m.** | RMB24/sq.m. to RMB51/sq.m. | The higher the average market rent, the higher the fair value |
| | | | | Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties | **8.75%** | 8.75% | The higher the discount rate, the lower the fair value |
| | | | | Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties | **3.8%** | 3.8% | The higher the rental growth rate, the higher the fair value |

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(c) (Continued)

| Description | Fair value (RMB'000) 2021 | Fair value (RMB'000) 2020 | Valuation technique(s) | Significant unobservable inputs | Range of unobservable inputs 2021 | Range of unobservable inputs 2020 | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| iii) Leasehold land and buildings in the PRC | **24,563** | 24,665 | Income approach — discounted cash flow approach | Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design | **RMB68/sq.m.** | RMB68/sq.m. | The higher the average market rent, the higher the fair value |
| | | | | Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties | **8.5%** | 8.5% | The higher the discount rate, the lower the fair value |
| | | | | Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties | **5%** | 5% | The higher the rental growth rate, the higher the fair value |
| | | | Direct comparison approach | Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc. | **RMB11,300/ sq.m** | RMB11,300/sq.m. | Higher the price per sq.m. will result in correspondingly higher fair value |
| iv) Land and buildings in the PRC | **42,500** | 42,500 | Direct comparison approach | Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc. | **RMB8,000/ sq.m.** | RMB8,000/sq.m. | Higher the price per sq.m. will result in correspondingly higher fair value |
| v) Leasehold land and buildings in the PRC | **232,951** | 243,243 | Income capitalisation approach | Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation | **6.25%** | 6.25% | The higher the capitalisation rate, the lower the fair value |
| | | | Income approach — discounted cash flow approach | Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design | **RMB31/sq.m.** | RMB30/sq.m. | The higher the average market rent, the higher the fair value |
| | | | | Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties | **9.75%** | 9.75% | The higher the discount rate, the lower the fair value |
| | | | | Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties | **4.2%** | 4.6% | The higher the rental growth rate, the higher the fair value |
| vi) Leasehold land and buildings in the PRC | **387** | – | Direct comparison approach | Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design | **Office premises: RMB7,700/sq.m.** | – | Higher the price per sq.m. will result in correspondingly higher fair value |
| Total | **668,500** | 716,405 | | | | | |

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(d) As at 31 December 2021, the Group had pledged the land and buildings with total carrying values of RMB187,474,000 (2020: RMB188,878,000) to secure banking facilities granted to the Group. Accordingly, land and buildings of the Group with carrying amount of RMB187,474,000 (2020: RMB188,878,000) were not freely transferable.

(e) An analysis of gross carrying amounts of the Group's property, plant and equipment:

| | Land and buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| At valuation | **668,550** | **—** | **—** | **—** | **—** | **—** | **668,550** |
| At cost | **—** | **139,775** | **15,476** | **151,337** | **16,466** | **21,408** | **344,462** |
| As at 31 December 2021 | **668,550** | **139,775** | **15,476** | **151,337** | **16,466** | **21,408** | **1,013,012** |
| At valuation | 716,405 | — | — | — | — | — | 716,405 |
| At cost | — | 124,744 | 19,158 | 129,132 | 17,139 | 22,071 | 312,244 |
| As at 31 December 2020 | 716,405 | 124,744 | 19,158 | 129,132 | 17,139 | 22,071 | 1,028,649 |

## 15. INVESTMENT PROPERTIES

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| As at 1 January | **2,091,024** | 2,112,208 |
| Transfer from property, plant and equipment (Note (b)) | **63,287** | — |
| Transfer between property held for sale (Note (a)) | **7,509** | 55 |
| Increase/(decrease) in fair value | **2,803** | (21,239) |
| As at 31 December | **2,164,623** | 2,091,024 |

Notes:

(a) During the year ended 31 December 2021, the use of certain properties held for sale with a total carrying amount of RMB10,340,000 (2020: RMB1,342,000) have changed to investment property purposes, as evidenced by the entering into by the Group of long term lease agreements with tenants. Accordingly, these properties were transferred from properties held for sale to investment properties and fair value gain of RMB1,202,000 (2020: fair value gain of RMB367,000) was recognised in profit or loss at the date of transfer. The leases were commenced during the year.

The use of certain properties with a total carrying amount of RMB4,033,000 have changed to properties held for sale as evidence by the entering into by the Group of sales contract with customers. There are no fair value change recognised in profit or loss at the date of transfer as the difference between the fair value and carrying amount is immaterial at the date of transfer.

## 15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(b) For the year ended 31 December 2021, the use of certain properties with a total carrying amount of RMB63,287,000 have changed to investment property purposes, as evidenced by the end of self-occupation for office use by the Group, and by the entering into by the Group of long term lease agreements with tenants and hence these properties were transferred from property, plant and equipment. As at the date of change of use, the carrying amount of these properties approximate their fair value.

(c) Pursuant to the Shenzhen Special Economic Zone High-Tech Industrial Park Vacant Factories Adjustments Management Measures ("深圳經濟特區高新技術產業園區協議類空置廠房調劑管理辦法") Condition No.3, when the owner occupied not less than 50% of the gross floor area of the subject property, they become qualified to submit written applications to administrative authorities of High-Tech Industrial Park to lease the remaining portions of the property to third parties, which the maximum gross floor area of the subject property can be leased to third parties would then be 50%. A building located in Shenzhen, PRC, is subject to these measures and the maximum area that can be leased to third parties is 32,140 sq.m. and the carrying amount of the investment property, representing the portion of the property that can be leased to third parties, with such restriction involved is RMB48,881,000 as at 31 December 2021 (2020: RMB50,465,000).

The fair value of the Group's investment properties in the PRC at 31 December 2021 and 2020 were with reference to valuation carried out by qualified valuers from CBRE Limited, an independent firm of chartered surveyors. The valuations were carried out in accordance with HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors.

The fair value of investments properties is a level 3 recurring fair value measurements using significant unobservable inputs. During the years, there were no transfers of fair value measurements between level 1 and level 2, and no transfers into or out of level 3.

There were no changes to the valuation techniques during the year.

For the Group's investment properties in the PRC as at 31 December 2021 and 2020, the valuation was determined using direct comparison approach, depreciated replacement cost approach, a weighting of income capitalisation approach and income approach — discounted cash flow approach and a weighting of direct comparison approach and income approach — discounted cash flow approach.

For the investment properties using the direct comparison approach, the fair value is based on prices for recent market transactions in similar properties and adjusted to reflect the conditions and locations of the Group's properties. The most significant input into this valuation approach is price per square feet and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.

For the investment properties using the depreciated replacement cost approach, the fair value is based on estimated new replacement cost of the buildings and other site works from which adjustments are then made to account for age, condition, and functional obsolescence, while taking into account the site formation cost and those public utilities connection charges to the properties. These adjustments are based on unobservable inputs. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of buildings.

For the investment properties using the income capitalisation approach, the fair value is based on rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates. The key inputs are capitalisation rate and monthly rent using direct market comparables.

For the investment properties using the income approach — discounted cash flow approach, fair value is based on assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of net cash flows on a property interest. A market-derived discount rate is applied to the projected net cash flow in order to establish the present value of the income stream associated with the asset. The key inputs are average market rent per square meter and discount rate.

For the investment properties using a weighting of direct comparison approach and income approach — the discounted cash flow approach, a suitable weighting have been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is price per square meter using market direct comparables.

## 15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

For the investment properties using a weighting of income capitalisation approach and income approach — the discounted cash flow approach, a suitable weighting have been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input are capitalisation rate, discount rate, average market rental growth rate and market rent.

Information about fair value measurements using significant unobservable inputs (Level 3) is provided below:

| Description | Fair value (RMB'000) 2021 | Fair value (RMB'000) 2020 | Valuation technique(s) | Significant unobservable inputs | Range of unobservable input 2021 | Range of unobservable input 2020 | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| i) Investment properties in the PRC | **30,800** | 31,000 | Direct comparison approach | Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc. | **RMB26,700/ sq.m.** | RMB26,900/sq.m. | Higher the price per sq.m. will result in correspondingly higher fair value |
| ii) Investment properties in the PRC | **122,497** | 122,497 | Depreciated replacement cost approach | Estimated cost of construction per sq.m., taking into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use | **RMB6,300/ sq.m** | RMB6,300/sq.m. | Higher the estimated cost of construction per sq.m. will result in correspondingly higher fair value |
| | | | | Age adjustment on the cost of buildings, taking into account of remaining useful life of buildings | **28%** | 26% | Higher the rate of age adjustment on the cost of buildings will result in correspondingly lower fair value |
| iii) Investment properties in the PRC | **922,054** | 877,306 | Income capitalisation approach | Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation | **5.5%** | 5.5% | The higher the capitalisation rate, the lower the fair value |
| | | | Income approach — discounted cash flow method | Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design | **RMB24/sq.m. to RMB51/sq.m.** | RMB24/sq.m. to RMB51/sq.m. | The higher the average market rent, the higher the fair value |
| | | | | Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties | **8.75%** | 8.75% | The higher the discount rate, the lower the fair value |
| | | | | Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties | **3.8%** | 3.8% | The higher the average market growth rate, the higher the fair value |

## 15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

| Description | Fair value (RMB'000) 2021 | Fair value (RMB'000) 2020 | Valuation technique(s) | Significant unobservable inputs | Range of unobservable input 2021 | Range of unobservable input 2020 | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| iv) Investment properties in the PRC | **702,393** | 704,366 | Income approach — discounted cash flow approach | Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design | **RMB68/sq.m.** | RMB68/sq.m. | The higher the average market rent, the higher the fair value |
| | | | | Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties | **8.5%** | 8.5% | The higher the discount rate, the lower the fair value |
| | | | | Average market rental growth rate, taking into account annual market rental income growth rate of comparable properties | **5%** | 5% | The higher the average market rental growth rate, the higher the fair value |
| | | | Direct comparison approach | Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc. | **Office premises: RMB7,300/sq.m. Retail premises: RMB9,500/sq.m. to RMB11,300/ sq.m.** | Office premises: RMB7,300/sq.m. Retail premises: RMB9,100/sq.m. to RMB11,300/ sq.m. | Higher the price per sq.m. will result in correspondingly higher fair value |
| v) Investment properties in the PRC | **24,473** | 18,155 | Direct comparison approach | Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc. | **Office premises: RMB7,700/sq.m.** | Office premises: RMB7,000/sq.m. | Higher the price per sq.m. will result in correspondingly higher fair value |
| vi) Investment properties in the PRC | **336,800** | 337,700 | Income capitalisation approach | Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation | **6.25%** | 6.25% | The higher the capitalisation rate, the lower the fair value |
| | | | Income approach — discounted cash flow method | Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design | **RMB70/sq.m.** | RMB57/sq.m. to RMB82/sq.m. | The higher the average market rent, the higher the fair value |
| | | | | Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties | **10.25%** | 10.25% | The higher the discount rate, the lower the fair value |
| | | | | Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties | **4%** | 6.25% | The higher the average market growth rate, the higher the fair value |

## 15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

| Description | Fair value (RMB'000) 2021 | Fair value (RMB'000) 2020 | Valuation technique(s) | Significant unobservable inputs | Range of unobservable input 2021 | Range of unobservable input 2020 | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| vi) Investment properties in the PRC (Continued) | **25,606** | – | Income capitalisation approach | Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation | **6.25%** | – | The higher the capitalisation rate, the lower the fair value |
| | | | Income approach – discounted cash flow method | Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design | **RMB33/sq.m.** | – | The higher the average market rent, the higher the fair value |
| | | | | Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties | **9.75%** | – | The higher the discount rate, the lower the fair value |
| | | | | Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties | **4.2%** | – | The higher the average market growth rate, the higher the fair value |
| Total | **2,164,623** | 2,091,024 | | | | | |

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

(d) All investment properties held by the Group were located in the PRC and held under medium term leases. All property interests held under operating leases are classified and accounted for as investment property.

(e) As at 31 December 2021, the Group had pledged investment properties with total carrying values of RMB1,685,723,000 (2020: RMB1,624,851,000), to secure general banking facilities granted to the Group. Accordingly, the investment properties of the Group with carrying value of RMB1,685,723,000 (2020: RMB1,624,851,000) are not freely transferable.

## 16. LEASES

### The Group as a lessee

The Group leases certain of its office properties under lease arrangements. Lease for the properties are negotiated for terms ranging from one to six years (2020: one to six years).

## 16. LEASES (CONTINUED)

### Right-of-use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

| | Payment for leasehold land held for own use RMB'000 (Note) | Office properties RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2020** | 33,145 | 60,550 | 93,695 |
| Addition | — | 988 | 988 |
| Depreciation charges | (784) | (12,840) | (13,624) |
| **As at 31 December 2020 and 1 January 2021** | 32,361 | 48,698 | 81,059 |
| Addition | — | 2,288 | 2,288 |
| Depreciation charges | (721) | (13,031) | (13,752) |
| **As at 31 December 2021** | 31,640 | 37,955 | 69,595 |

Note: All the land was acquired at a concessionary discount on land premium and is not freely transferable unless, among others, additional premium, if any, is paid and government approval is obtained.

### Lease Liabilities

Movement of the Group's leases liabilities is analysed as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Balance as at 1 January** | 55,875 | 63,861 |
| Additions | 2,288 | 988 |
| Interest expense | 2,545 | 3,053 |
| Lease payments | (16,054) | (12,027) |
| **Balance as at 31 December** | 44,654 | 55,875 |

## 16. LEASES (CONTINUED)

**Lease Liabilities (Continued)**

Future lease payments are due as follows:

| | Minimum lease payments 31 December 2021 RMB'000 | Interest 31 December 2021 RMB'000 | Present value 31 December 2021 RMB'000 |
|---|---|---|---|
| Not later than one year | **15,801** | **(1,906)** | **13,895** |
| Later than one year and not later than five years | **32,511** | **(1,752)** | **30,759** |
| Later than five years | **—** | **—** | **—** |
| | **48,312** | **(3,658)** | **44,654** |

| | Minimum lease payments 31 December 2020 RMB'000 | Interest 31 December 2020 RMB'000 | Present value 31 December 2020 RMB'000 |
|---|---|---|---|
| Not later than one year | 15,203 | (2,500) | 12,703 |
| Later than one year and not later than five years | 44,280 | (3,589) | 40,691 |
| Later than five years | 2,496 | (15) | 2,481 |
| | 61,979 | (6,104) | 55,875 |

The present value of future lease payments of the Group's leases are analysed as:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Current | **13,895** | 12,703 |
| Non-current | **30,759** | 43,172 |
| | **44,654** | 55,875 |

## 16. LEASES (CONTINUED)

### Lease Liabilities (Continued)

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Short term lease expenses | **1,937** | 2,103 |
| Aggregate undiscounted commitments for short term lease | **609** | 896 |

### The Group as a lessor

The Group's investment property is also leased to a number of tenants for various terms. The rental income during the year ended 31 December 2021 was RMB153,114,000 (2020: RMB157,689,000).

At the end of reporting period, the Group's total future minimum lease receivables under non-cancellable operating lease are as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Not later than one year | **117,163** | 84,198 |
| Later than one year and not later than two years | **60,324** | 42,432 |
| Later than two years and not later than three years | **39,267** | 20,914 |
| Later than three years and not later than four years | **24,783** | 12,126 |
| Later than four years and not later than five years | **16,824** | 4,372 |
| Later than five years | **15,645** | 7,433 |
| | **274,006** | 171,475 |

## 17. INVESTMENT IN AN ASSOCIATE

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Share of net assets | **11,316** | – |

## 17. INVESTMENT IN AN ASSOCIATE (CONTINUED)

Details of the Group's associate is as follows:

| Name of entity | Place of Business | Place of incorporation, operation and principal activity | Percentage of ownership interests/ voting rights/ profit share | Measurement method |
|---|---|---|---|---|
| 廣東省工業邊緣智能創新中心有限公司 Guangdong Province Industrial Edge Intelligent Innovation Centre Company Limited* | The PRC | Sales and develop of electronic components and software in PRC | 24% | Equity accounting |

* For identification purpose only.

Summarised financial information of the associate which is accounted for using the equity method:

**廣東省工業邊緣智能創新中心有限公司**

| | 2021 RMB'000 |
|---|---|
| As at 31 December | |
| Current assets | 67,638 |
| Non-current assets | — |
| Current liabilities | (486) |
| Non-current liabilities | (20,000) |
| Net assets | 47,152 |
| Group's share of net assets of the associate | 11,316 |
| Year ended 31 December | |
| Revenue | 189 |
| Expenses | (3,037) |
| Loss after tax and other comprehensive income | (2,848) |

## 18. INVENTORIES

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Raw materials | **66,721** | 47,286 |
| Work-in-progress | **10,221** | 10,297 |
| Finished goods | **14,128** | 17,930 |
| | **91,070** | 75,513 |
| Less: Allowance for inventories | **(9,584)** | (1,507) |
| | **81,486** | 74,006 |

The cost of inventories recognised as an expense during the reporting period was RMB646,779,000 (2020: RMB876,953,000), of which RMB8,077,000 (2020: RMB191,000) was in respect of impairment of inventories made in current year.

## 19. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

All properties under development and held for sale are located in the PRC.

As at 31 December 2021, the properties under development and held for sale with carrying amount of RMB699,612,000 and RMB701,107,000 (2020: RMB617,760,000 and RMB700,877,000) respectively were pledged as collateral for the Group's borrowings (Note 26).

As at 31 December 2021, properties under development amounting to approximately RMB459,533,000 (2020: RMB487,875,000) were not expected to be realised within twelve months from the end of the reporting period.

## 20. TRADE AND BILLS RECEIVABLES

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Trade receivables (Notes (a) and (b)) | **234,356** | 253,991 |
| Bills receivable (Note (c)) | **105,862** | 47,188 |
| Total | **340,218** | 301,179 |

Note:

Goods sold to customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranged from 30 days to 90 days, extending up to 180 days for major customers. Each customer has a maximum credit limit. The Group and the Company recognise impairment loss based on the accounting policy stated in Note 4(h)(ii).

## 20. TRADE AND BILLS RECEIVABLES (CONTINUED)

Note: (Continued)

(a) The aging analysis of gross trade receivables at the end of reporting period, based on the invoice date, is as follows:

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| 0 to 90 days | **219,817** | 249,803 |
| 91 to 180 days | **7,457** | 797 |
| 181 to 365 days | **2,585** | 753 |
| Over 1 year | **4,497** | 2,638 |
| Gross trade receivables | **234,356** | 253,991 |

(b) The Group has assessed credit risk over the trade receivables as presented in Note 36(a).

(c) Bills receivable are with maturity of less than a year. At 31 December 2021, the Group endorsed certain bills receivable in the PRC (the "Endorsed Bills") with a carrying amount of RMB105,862,000 (2020: RMB47,188,000) to certain of its suppliers in order to settle the trade payables due to such suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amount of the Endorsed Bills and the associated trade payables settled. Subsequent to the endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB105,862,000 (2020: RMB47,188,000) as at 31 December 2021.

Trade debtors and bills receivables are due within 30 days to 90 days, extending up to 180 days from the day of billing for major customers. Further details on the group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 36(a).

## 21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS/CONTRACT COSTS

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Other receivables (Note (a)) | **10,740** | 10,153 |
| Non-trade deposits | **11,573** | 10,438 |
| Advances to suppliers (Note (b)) | **237,636** | 172,932 |
| Prepayments (Note (c)) | **77,929** | 38,256 |
| | **337,878** | 231,779 |
| Contract costs (Note (d)) | **4,346** | 3,232 |

The above balances are interest-free and are not secured with collateral. None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there were no recent history or default.

No ECLs are provided for the financial assets included in the above balances as the Group considered the credit risks are immaterial. See Note 36(a) for details.

Notes:

(a) The amount mainly comprises the receivables from tenants of RMB1,579,000 (2020: RMB3,197,000) and fund advances to staff for daily operations of RMB5,444,000 (2020: RMB6,090,000).

(b) Advances to suppliers are mainly related to electronic products and accessories business. These suppliers are privately-owned companies located in the PRC that engaged in manufacturing of mobile phones or distribution of mobile phones and its accessories. Among the balance of RMB237,636,000 (2020: RMB172,932,000), RMB81,895,000 (2020: RMB90,687,000) was advanced to mobile phone manufacturers. The remaining balances amounting to RMB155,741,000 (2020: RMB82,245,000) are advances to mobile phone and electronic components suppliers who are manufacturers and distributors.

(c) The amount mainly comprises the prepayments for construction project costs to constructors of RMB28,400,000 (2020: RMB34,528,000) and is not expected to be realised within twelve months from the end of the reporting period and the prepayment for other taxes of RMB41,550,000 (2020: 3,728,000).

(d) The Group had paid commission to properties agents in PRC in advance after entering into pre-sales agreements and receiving deposits from customers. These payments are refundable to the Group if the customers have not completed the purchase of properties. The commission paid are expected to be recognised as expense in profit or loss within twelve months from the end of reporting period at the point in time that the properties are ready for transfer and the control transferred to customers.

## 22. CASH AND BANK BALANCES

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Cash and bank balances | **2,338,846** | 2,379,881 |
| Restricted bank deposit | **106,583** | 106,541 |
| | **2,445,429** | 2,486,422 |
| Less: | | |
| Pledged bank balances (Note (a)) | **(334)** | (61) |
| Restricted bank deposit for loan (Note (b)) | **(3,441)** | (2,882) |
| Restricted bank deposit for bills payables (Note (c)) | **(44,000)** | (48,127) |
| Restricted bank deposit for construction projects (Note (d)) | **(59,142)** | (55,532) |
| | **(106,917)** | (106,602) |
| Cash and cash equivalents | **2,338,512** | 2,379,820 |

Notes:

(a) Pledged bank balances represent deposits placed in banks as a reserve for any compensation of the damages during the construction.

(b) Restricted bank deposit of RMB3,441,000 (2020: RMB2,882,000) represents the deposits pledged to banks to secure short-term loan facilities.

(c) Restricted bank deposit of RMB44,000,000 (2020: 48,127,000) is to secure bills payables.

(d) Restricted bank deposit of RMB59,142,000 (2020: RMB55,532,000) represents the deposits restricted in use in order to secure the Group's obligations in relation to specific construction projects which are required by the banks and local authority.

(e) Cash at banks earns interest at floating rates based on daily bank deposit rates.

(f) At the end of reporting period, majority of the bank balances and cash of the Group are denominated in RMB. RMB is not freely convertible into other currencies. Under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group are permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

## 23. TRADE AND BILLS PAYABLES

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Trade payables (Note (a)) | **757,375** | 908,520 |
| Bills payable (Note (b)) | **105,938** | 100,000 |
| | **863,313** | 1,008,520 |

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

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| 0 to 90 days | **545,946** | 715,731 |
| 91 to 180 days | **14,755** | 3,345 |
| 181 to 365 days | **47,259** | 27,183 |
| Over 1 year | **149,415** | 162,261 |
| | **757,375** | 908,520 |

Notes:

(a) At the end of reporting period, the Group has endorsed certain bills receivable with recourse to suppliers and the carrying amount of liabilities of RMB105,862,000 (2020: RMB47,188,000) relating to these bills receivable (Note 20(c)) continue to be recognised as trade payables.

(b) Bills payable of RMB44,000,000 (2020: RMB48,127,000) was secured by the restricted bank deposit (Note 22(c)).

## 24. OTHER PAYABLES, ACCRUALS AND RECEIPTS IN ADVANCE

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Construction and other payables | **66,035** | 112,973 |
| Receipts in advance | **32,724** | 10,060 |
| Government grants (Note) | **100,265** | 69,297 |
| Accruals | **20,399** | 23,521 |
| | **219,423** | 215,851 |
| Less: Non-current portion | | |
| Government grants (Note) | **(7,122)** | (15,410) |
| Current portion | **212,301** | 200,441 |

Note: The balance represents grants obtained from the PRC government in relation to the development of high-technology products and purchase of specified property, plant and equipment for development of specified project by the Group. At the end of reporting period, the conditions required by the relevant government subsidy schemes have not been fully fulfilled and as such, the related income has not yet been recognised. As at 31 December 2021, the government grants amounting to approximately RMB7,122,000 (2020: RMB15,410,000) were not expected to be realised within twelve months from the end of the reporting period.

## 25. CONTRACT LIABILITIES

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Contract liabilities arising from: | | |
| Manufacturing and trading of special computers | **39,090** | 50,077 |
| Properties development | **233,253** | 275,925 |
| | **272,343** | 326,002 |

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

**Manufacturing and trading of special computer**

The Group requests certain new customers to place deposit on acceptance of the order, with the remainder of the consideration at the delivery of the finished goods.

**Properties development**

The Group takes deposits for the selling of residential units stated in the sales and purchase agreement before the transfer of residential units.

## 25. CONTRACT LIABILITIES (CONTINUED)

### Movements in contract liabilities

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Balance as at 1 January | **326,002** | 104,942 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | **(184,359)** | (84,785) |
| Increase in contract liabilities as a result of receiving deposits from customers | **130,700** | 305,845 |
| Balance at 31 December | **272,343** | 326,002 |

Among the balance of RMB326,002,000 as at 1 January 2021, RMB184,359,000 is recognised as revenue during the year 2021. The group will recognise the expected revenue in future based on the appropriate accounting policies as described in Note 4(k), which is expected to occur within next 24 months from the end of the reporting period.

## 26. BANK BORROWINGS

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| **Current** | | |
| Secured bank borrowings | **267,000** | 163,740 |
| Unsecured and guaranteed bank borrowings | **654,000** | 1,459,947 |
| | **921,000** | 1,623,687 |
| **Non-current** | | |
| Secured bank borrowings | **1,513,190** | 1,492,410 |
| Unsecured and guaranteed bank borrowings | **997,800** | 180,000 |
| | **2,510,990** | 1,672,410 |
| | **3,431,990** | 3,296,097 |

## 26. BANK BORROWINGS (CONTINUED)

At the end of reporting period, total bank borrowings were scheduled to be repaid as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| On demand or within one year | **921,000** | 1,623,687 |
| After one year but within two years | **674,000** | 323,000 |
| After two years but within five years | **871,300** | 355,500 |
| More than five years | **965,690** | 993,910 |
| | **2,510,990** | 1,672,410 |
| | **3,431,990** | 3,296,097 |

The Group has bank borrowings with fixed rates and floating rates which carry prevailing market interest rates, as follows:

| | 2021 Effective interest rate % | 2021 RMB'000 | 2020 Effective interest rate % | 2020 RMB'000 |
|---|---|---|---|---|
| **Fixed rate borrowings** | | | | |
| Bank borrowings | **4.00%–6.20%** | **200,000** | 4.03%–6.20% | 394,947 |
| **Floating rate borrowings** | | | | |
| Bank borrowings | **4.06%–6.62%** | **3,231,990** | 4.36%–6.62% | 2,901,150 |

At 31 December 2021, the secured bank borrowings with carrying amount of RMB1,780,190,000 (2020: RMB1,656,150,000) and general banking facilities are secured by way of charge over certain assets, including land and buildings (note 14), investment properties (note 15), payments for leasehold land held for own use (note 16), properties under development and held for sale (note 19) and restricted bank deposit (note 22) together with the personal guarantee given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company, his spouse and the ultimate holding company.

The remaining bank borrowings amounting to RMB1,651,800,000 (2020: RMB1,639,947,000) are unsecured and guaranteed given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company, his spouse and the ultimate holding company.

As at 31 December 2021, the Group's floating-rate bank borrowings carry interest at rates ranging from 4.06% to 6.62% (2020: 4.36% to 6.62%).

At the end of reporting period, the Group had available undrawn committed borrowing facilities of RMB744,010,000 (2020: RMB618,903,000) in respect of which all conditions precedent had been met.

## 27. DEFERRED TAXATION

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the reporting period are as follows:

| | Capitalised interests on borrowings RMB'000 | Unrealised profit on inter company transactions RMB'000 | Revaluation of properties RMB'000 | Allowance for impairment losses (Note (b)) RMB'000 | Temporary difference on recognition of expenses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2020 | 41,510 | (3,110) | 342,483 | (15,482) | (7,295) | 358,106 |
| Charged/(credited) to profit or loss | 876 | (998) | (5,219) | 14 | — | (5,327) |
| Charged to other comprehensive income (Note (a)) | — | — | 3,562 | — | — | 3,562 |
| At 31 December 2020 and 1 January 2021 | **42,386** | **(4,108)** | **340,826** | **(15,468)** | **(7,295)** | **356,341** |
| Charged/(credited) to profit or loss | **2,648** | **(375)** | **1,001** | **46** | **—** | **3,320** |
| Charged to other comprehensive income (Note (a)) | **—** | **—** | **8,121** | **—** | **—** | **8,121** |
| At 31 December 2021 | **45,034** | **(4,483)** | **349,948** | **(15,422)** | **(7,295)** | **367,782** |

Notes:

(a) This represents income tax related to surplus on revaluation of land and buildings classified as property, plant and equipment.

(b) This represents the tax effects of deductible temporary differences arising from recognition of impairment losses on inventories.

Deferred tax balances are presented in the consolidated statement of financial position as follow:

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| Deferred tax assets | **(27,202)** | (26,871) |
| Deferred tax liabilities | **394,984** | 383,212 |
| | **367,782** | 356,341 |

The Group has estimated unused tax losses arising in the PRC of RMB302,106,000 (2020: RMB300,437,000) that can be carried forward for five years for offsetting against its future taxable profits.

## 27. DEFERRED TAXATION (CONTINUED)

The unused tax losses arising in the PRC will expire as follows:

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| Year of expiry | | |
| 2021 | **–** | 2,652 |
| 2022 | **2,222** | 2,222 |
| 2023 | **14,205** | 14,379 |
| 2024 | **25,093** | 32,551 |
| 2025 | **212,405** | 248,633 |
| 2026 | **48,181** | – |
| | **302,106** | 300,437 |

No deferred tax assets have been recognised for the unused tax losses as the availability of future taxable profits to utilise the temporary differences is not probable.

## 28. SHARE CAPITAL

| | **Number of shares** | **RMB'000** |
|---|---|---|
| Registered, issued and fully paid | | |
| At 1 January 2020, 31 December 2020 and 2021 | 1,233,144,000 | 123,314 |
| Of which: | | |
| Domestic shares of RMB0.1 each | 924,792,000 | 92,479 |
| Overseas listed H Shares of RMB0.1 each | 308,352,000 | 30,835 |
| | 1,233,144,000 | 123,314 |

Domestic shares and overseas listed H shares are both ordinary shares of the Company. However, overseas listed H shares may only be subscribed for by, and traded in Hong Kong dollars between legal and natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC whereas domestic shares may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

## 29. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 44.

### (b) Company

| | Share premium RMB'000 (Note (c)(i)) | Statutory surplus reserve RMB'000 (Note (c)(ii)) | Properties revaluation reserve RMB'000 (Note (c)(iii)) | Translation reserve RMB'000 (Note (c)(iv)) | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2020 | 8,586 | 69,260 | 432,456 | 736 | 1,443,703 | 1,954,741 |
| Total comprehensive income for the year, net of tax | – | – | 3,086 | 465 | 402,936 | 406,487 |
| At 31 December 2020 and 1 January 2021 | **8,586** | **69,260** | **435,542** | **1,201** | **1,846,639** | **2,361,228** |
| Total comprehensive income/(loss) for the year, net of tax | **–** | **–** | **10,888** | **222** | **(29,286)** | **(18,176)** |
| At 31 December 2021 | **8,586** | **69,260** | **446,430** | **1,423** | **1,817,353** | **2,343,052** |

### (c) Nature and purpose of reserves

#### *(i) Share premium*

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share.

#### *(ii) Statutory surplus reserve*

In accordance with the PRC Company Law, the Company and its PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies). The statutory surplus reserve is non-distributable and can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

#### *(iii) Properties revaluation reserve*

This has been set up and is dealt with in accordance with the accounting policy in Note 4(d).

#### *(iv) Translation reserve*

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. This reserve is dealt with in accordance with the accounting policy in Note 4(m).

## 30. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | **474,132** | 504,791 |
| Investment properties | **1,075,352** | 1,030,803 |
| Right-of-use assets | **37,237** | 48,438 |
| Investments in subsidiaries | **1,073,693** | 1,064,693 |
| Investments in an associate | **9,500** | — |
| Deferred tax assets | **—** | 17 |
| **Total non-current assets** | **2,669,914** | 2,648,742 |
| **Current assets** | | |
| Inventories | **1,732** | 2,541 |
| Trade receivables | **220,939** | 247,718 |
| Bills receivable | **105,412** | 20,658 |
| Other receivables, deposits and prepayments | **292,042** | 184,236 |
| Amounts due from subsidiaries | **904,304** | 1,548,867 |
| Dividend receivable | **—** | — |
| Cash and bank balances | **2,183,046** | 2,060,539 |
| **Total current assets** | **3,707,475** | 4,064,559 |
| **Current liabilities** | | |
| Trade payables | **335,403** | 411,190 |
| Bills payable | **100,101** | 100,000 |
| Contract liabilities | **16,170** | 27,658 |
| Other payables, accruals and receipts in advance | **178,015** | 147,783 |
| Amounts due to related parties | **—** | 120 |
| Lease liabilities | **11,821** | 11,340 |
| Bank borrowings | **662,000** | 1,465,000 |
| Amounts due to subsidiaries | **235,750** | 748,830 |
| Income tax payable | **13,879** | 13,879 |
| **Total current liabilities** | **1,553,139** | 2,925,800 |
| **Net current assets** | **2,154,336** | 1,138,759 |
| **Total assets less current liabilities** | **4,824,250** | 3,787,501 |
| **Non-current liabilities** | | |
| Bank borrowings | **2,136,500** | 1,061,520 |
| Other payables, accruals and receipts in advance | **7,122** | 15,410 |
| Lease liabilities | **30,338** | 42,109 |
| Deferred tax liabilities | **183,924** | 183,920 |
| **Total non-current liabilities** | **2,357,884** | 1,302,959 |
| **NET ASSETS** | **2,466,366** | 2,484,542 |

## 30. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28 | **123,314** | 123,314 |
| Reserves | 29(b) | **2,343,052** | 2,361,228 |
| **TOTAL EQUITY** | | **2,466,366** | 2,484,542 |

On behalf of the directors

| **Chen Zhi Lie** | **Geng Wen Qiang** |
|---|---|
| *Chairman* | *Director* |

## 31. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries, the business structure of which were corporations, as at 31 December 2021 are as follows:

| Name of subsidiary | Place of incorporation/ establishment and operations | Issued and fully paid up registered capital | Attributable equity interests held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | directly | indirectly | |
| 深圳市研祥軟件技術有限公司 Shenzhen EVOC Software Technology Company Limited* | PRC | RMB6,000,000 | 100% | – | Investment holding |
| 深圳市研祥新特科技有限公司 Shenzhen EVOC Xinteer Technology Company Limited* | PRC | RMB10,000,000 | – | 100% | Trading of electronic accessories |
| 上海市研祥智能科技有限公司 Shanghai EVOC Intelligent Technology Company Limited* | PRC | RMB30,000,000 | – | 100% | Research, development, manufacture and distribution of special computer products |
| 北京市研祥興業國際智能科技有限公司 Beijing EVOC Xingye International Technology Company Limited* | PRC | RMB30,000,000 | – | 100% | Research, development and distribution of special computer products |
| 無錫深港國際服務外包產業發展有限公司 Wuxi SHIOC International Outsourcing Industry Development Company Limited* | PRC | RMB306,122,400 | 100% | – | Property development |
| 昆山研祥智能科技有限公司 Kunshan EVOC Intelligent Technology Company Limited* | PRC | RMB100,000,000 | 90% | 10% | Property development |
| 浙江研祥智能科技有限公司 Zhejiang EVOC Intelligent Technology Company Limited* | PRC | RMB70,000,000 | 90% | 10% | Property development |
| 江蘇研祥智能科技有限公司 Jiangsu EVOC Intelligent Technology Company Limited* | PRC | RMB100,000,000 | 90% | 10% | Property development |
| 南通研祥智能科技有限公司 Nantong EVOC Intelligent Technology Company Limited* | PRC | RMB60,000,000 | 90% | 10% | Property development |

## 31. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name of subsidiary | Place of incorporation/ establishment and operations | Issued and fully paid up registered capital | Attributable equity interests held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | directly | indirectly | |
| 深圳市研祥特種計算機工業有限公司 Shenzhen EVOC Special Computer Industry Company Limited* | PRC | RMB100,000,000 | – | 100% | Research, development and distribution of special computer products |
| 深圳市研祥通軟件有限公司 Shenzhen EVOC STONE Software Company Limited* | PRC | RMB10,000,000 | 100% | – | Research, development, manufacture and distribution of special computer software products |
| 研祥智慧物聯科技有限公司 EVOC Intelligent Logistic Technology Company Limited* | PRC | RMB50,000,000 | 100% | – | Research, development, manufacture and distribution of special computer software products |
| 深圳市天之祥科技有限公司 Shenzhen Tianzhixiang Technology Company Limited* | PRC | RMB1,000,000 | – | 100% | Research, development and distribution of special computer products |
| 南寧市研祥特種計算機軟件有限公司 Nanning Special Computer Software Company Limited* | PRC | RMB5,000,000 | – | 100% | Research, development, manufacture and distribution of special computer software products |
| 香港研祥國際科技有限公司 Hong Kong EVOC International Technology Company Limited* | Hong Kong | HK$100,000 | 100% | – | Trading of electronic accessories |
| 深圳市研祥集成電路設計有限公司 Shenzhen Integrated Circuit Design Company Limited* | PRC | RMB10,000,000 | – | 100% | Research, development and distribution Very large scale integration |

* For identification purpose only

## 31. INTERESTS IN SUBSIDIARIES (CONTINUED)

All subsidiaries established in the PRC are companies incorporated with limited liability.

The above table lists the subsidiaries of the Company, which, in the opinion of the directors, would have a comparatively significant impact on the results, assets, or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excess length.

None of the subsidiaries had issued any debt securities at the end of reporting period.

## 32. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Analysis of total cash outflows for leases

| | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|
| Within operating cash flows | 1,937 | 2,103 |
| Within financing cash flows | 16,054 | 12,027 |
| | 17,991 | 14,130 |

**(b)** Reconciliation of liabilities arising from financing activities:

| | Bank borrowings (Note 26)<br>RMB'000 | Lease liabilities (Note 16)<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| At 1 January 2021 | 3,296,097 | 55,875 | 3,351,972 |
| Changes from financing cash flows: | | | |
| Repayment of bank borrowings | (1,658,407) | – | (1,658,407) |
| Proceeds from bank borrowings | 1,794,300 | – | 1,794,300 |
| Interest paid | (182,981) | – | (182,981) |
| Interest on lease liabilities | – | (2,545) | (2,545) |
| Repayment of principal portion of lease liabilities | – | (13,509) | (13,509) |
| Total changes from financing cash flows | (47,088) | (16,054) | (63,142) |
| Other changes: | | | |
| Finance costs | 182,981 | 2,545 | 185,526 |
| New lease entered during the year | – | 2,288 | 2,288 |
| Total other changes | 182,981 | 4,833 | 187,814 |
| At 31 December 2021 | 3,431,990 | 44,654 | 3,476,644 |

## 32. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (b) (Continued)

| | Bank borrowings (Note 26) RMB'000 | Lease liabilities (Note 16) RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2020 | 2,541,243 | 63,861 | 2,605,104 |
| Changes from financing cash flows: | | | |
| Repayment of bank borrowings | (1,289,056) | — | (1,289,056) |
| Proceeds from bank borrowings | 2,043,910 | — | 2,043,910 |
| Interest paid | (179,086) | — | (179,086) |
| Lease payment | — | (12,027) | (12,027) |
| Total changes from financing cash flows | 575,768 | (12,027) | 563,741 |
| Other changes: | | | |
| Finance costs | 179,086 | 3,053 | 182,139 |
| New lease entered during the year | — | 988 | 988 |
| Total other changes | 179,086 | 4,041 | 183,127 |
| At 31 December 2020 | 3,296,097 | 55,875 | 3,351,972 |

## 33. CAPITAL COMMITMENTS

| | **2021 RMB'000** | 2020 RMB'000 |
|---|---|---|
| Contracted but not provided for: | | |
| — Construction of buildings and properties under development | **462,475** | 624,809 |

## 34. RELATED PARTY TRANSACTIONS

During the year, transactions with the following parties are considered to be related party transactions:

| Name of related party | Relationship |
|---|---|
| 深圳市共贏創小額貸款公司<br>Shenzhen Win-Win Creation Small Loan Co. Ltd.* | Owned by ultimate controlling shareholder and an executive director of the Company |
| 無錫風水隆物業管理有限公司<br>Wuxi Fengshuilong International Property Management Co. Ltd.* | Wholly owned by the spouse of ultimate controlling shareholder and an executive director of the Company |
| 上海研祥旺客高科技有限公司<br>Shanghai EVOC Wangke High-Tech Co. Ltd.* | Wholly owned by Ultimate controlling shareholder and an executive director of the Company |
| 南寧研祥裝備科技有限公司<br>Nanning EVOC Equipment Technology Co. Ltd.* | Owned by ultimate controlling shareholder and an executive director of the Company |
| 深圳市有祥創業投資有限公司<br>Shenzhen Youxiang Industrial Investment Co. Ltd.* | Owned by ultimate controlling shareholder and an executive director of the Company |
| 深圳市歐範婦幼關愛用品有限公司<br>Shenzhen Oufan Women And Children Care Products Co., Ltd.* | Wholly owned by Ultimate controlling shareholder and an executive director of the Company |

* For identification purpose only

Other than as disclosed elsewhere in the consolidated financial statements, during the year and in the ordinary course of business, the Group had the following material transactions with related parties:

**(a)** The Group's bank borrowings are secured by, among others, corporate guarantees given by the ultimate holding company and personal guarantees given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company.

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with related parties

The Group entered into the following related party transactions during the year.

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Rental income, management fee income and electricity fee income** | | |
| 深圳市共贏創小額貸款公司 Shenzhen Win-Win Creation Small Loan Co. Ltd.* | **25** | 81 |
| 深圳市有祥創業投資有限公司 Shenzhen Youxiang Industrial Investment Co. Ltd.* | **60** | 195 |

During the year, transactions with the following parties are considered to be related party transactions:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Lease payments** | | |
| 上海研祥旺客高科技有限公司 Shanghai EVOC Wangke Hi-Tech Co. Ltd.* | **669** | 176 |
| 南寧研祥裝備科技有限公司 Nanning EVOC Equipment Technology Co. Ltd.* | **190** | 156 |
| **Management fee and electricity fee** | | |
| 無錫風水隆物業管理有限公司 Wuxi Fengshuilong International Property Management Co. Ltd.* | **10,711** | 13,250 |

### (c) Balances with related parties

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Amounts due from related parties** | | |
| 無錫風水隆物業管理有限公司 Wuxi Fengshuilong International Property Management Co. Ltd.* | **3,786** | 1,718 |
| 南寧研祥裝備科技有限公司 Nanning EVOC Equipment Technology Co. Ltd.* | **39** | 39 |
| 上海研祥旺客高科技有限公司 Shanghai EVOC Wangke Hi-Tech Co. Ltd.* | **50** | — |

* For identification purpose only

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

### (c) Balances with related parties (Continued)

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| **Amounts due to related parties** | | |
| 無錫風水隆物業管理有限公司 | | |
| Wuxi Fengshuilong International Property Management Co. Ltd.* | **47** | 256 |
| 深圳市有祥創業投資有限公司 | | |
| Shenzhen Youxiang Industrial Investment Co. Ltd.* | **45** | 40 |
| 深圳市共贏創小額貸款公司 | | |
| Shenzhen Win-Win Creation Small Loan Co. Ltd.* | **20** | 17 |
| 深圳市歐範婦幼關愛用品有限公司 | | |
| Shenzhen Oufan Women And Children Care Products Co., Ltd.* | **26** | 26 |

* For identification purpose only

Note: The amounts are unsecured, interest free and repayable on demand. As at 31 December 2021, there is no significant increase in credit risk since their initial recognition for the amounts due from related parties with and the provision for impairment were assessed to be immaterial.

### (d) Compensation of key management personnel

The emoluments of directors and the senior management during the year were as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **2,064** | 1,884 |
| Bonus | **468** | 155 |
| Contributions to retirement benefits schemes | **210** | 108 |
| | **2,742** | 2,147 |

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

### (d) Compensation of key management personnel (Continued)

The emoluments paid or payable to the directors and the senior management were within the following bands:

| | 2021 No. of Individuals | 2020 No. of Individuals |
|---|---|---|
| Nil to HK$1,000,000 | **19** | 16 |

## 35. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. For the purpose the Group defines net debts as total debt (which includes bank borrowings, trade payables, bills payables, other payables, accruals and receipts in advance, contract liabilities, amounts due to related parties and lease liabilities), less cash and bank balances. Equity comprises share capital and reserves, less unaccrued proposed dividends, if any.

The gearing ratio at the end of reporting period was as follows:

| | 2021 RMB'000 | 2020 RMB'000 |
|---|---|---|
| Debt | **4,831,861** | 4,902,684 |
| Cash and bank balances | **(2,445,429)** | (2,486,422) |
| Net debt | **2,386,432** | 2,416,262 |
| Equity | **2,990,192** | 2,799,400 |
| Net debt to equity ratio | **80%** | 86% |

## 36. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to its trade receivables, bills receivable, other receivables 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 regard of trade receivables and bills receivable, the Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk at 47.3% and 82.1% (2020: 93.3% and 96.5%) of the total trade receivables was due from the Group's largest and five largest trade debtors respectively. These large trade debtors are privately-owned companies located in the PRC that are engaged in the distribution of mobile phones, telecommunication and information technology industries.

The Group does not provide any guarantees which would expose the Group to credit risk.

The Group applies the simplified approach to account for ECLs prescribed by HKFRS 9, which permit the use of the lifetime ECLs. The provision rates are based on days past due for grouping of various customer segments with similar loss patterns. The calculation reflects the probability-weighed outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. No ECLs are provided as the Group considered the credit risk are immaterial.

In respect of other receivables, the Group has applied the general approach to provide for ECLs of the financial assets measured at amortised cost including other receivables and non-trade deposits. The Group assessed that the credit standing of the debtors is good and the tenor of such receivables is short. And of the deposits, in situation of a default, the Group might reduce the loss by negotiating settlement based on obtaining a right or use over lease assets. No ECLs were provided as it is assessed that the overall ECLs for above financial assets measured at amortised cost is immaterial. As at 31 December 2021, there is no significant increase in credit risk since their initial application for the financial assets included in other receivables and non-trade deposits and the provisions for impairment were assessed to be immaterial.

In respect of cash and bank balances, the credit risk is considered negligible as it is placed with reputable banks with high quality external credit ratings, these was no recent history of default of cash and cash equivalent from such financial institutions.

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
|---|---|---|---|---|---|---|
| **2021** | | | | | | |
| Trade payables | **757,375** | **757,375** | **757,375** | **–** | **–** | **–** |
| Bills payable | **105,938** | **105,938** | **105,938** | **–** | **–** | **–** |
| Other payables and accruals | **86,434** | **86,434** | **86,434** | **–** | **–** | **–** |
| Amounts due to related parties | **138** | **138** | **138** | **–** | **–** | **–** |
| Bank borrowings | **3,431,990** | **3,477,310** | **785,545** | **757,701** | **913,051** | **1,021,013** |
| Lease liabilities | **44,654** | **48,312** | **15,801** | **15,126** | **17,385** | **–** |
| | **4,426,529** | **4,475,507** | **1,751,231** | **772,827** | **930,436** | **1,021,013** |
| **2020** | | | | | | |
| Trade payables | 908,520 | 908,520 | 908,520 | – | – | – |
| Bills payable | 100,000 | 100,000 | 100,000 | – | – | – |
| Other payables and accruals | 136,494 | 136,494 | 136,494 | – | – | – |
| Amounts due to related parties | 339 | 339 | 339 | – | – | – |
| Bank borrowings | 3,296,097 | 4,270,968 | 1,787,698 | 470,953 | 504,727 | 1,507,590 |
| Lease liabilities | 55,875 | 61,979 | 15,203 | 44,280 | 2,496 | – |
| | 4,497,325 | 5,478,300 | 2,948,254 | 515,233 | 507,223 | 1,507,590 |

### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile is monitored by management.

It is estimated that as at 31 December 2021, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year, and retained profits by RMB21,400,000 (2020: RMB18,800,000).

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 non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis is performed on the same basis for 2020.

## 36. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Currency risk

The Group's main operations are in the PRC and have no significant exposure to any specific foreign currency.

### (e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2021 and 2020.

## 37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2021 and 2020 may be categorised as follows:

| | **2021<br>RMB'000** | 2020<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets measured at amortised cost | | |
| — Trade receivables | **234,356** | 253,991 |
| — Bills receivables | **105,862** | 47,188 |
| — Other receivables and non-trade deposits | **22,313** | 20,591 |
| — Amounts due from related parties | **3,875** | 1,757 |
| — Cash and cash equivalents | **2,445,429** | 2,486,422 |
| | **2,811,835** | 2,809,949 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | | |
| — Trade payables | **757,375** | 908,520 |
| — Bills payables | **105,938** | 100,000 |
| — Other payables and accruals | **86,434** | 136,494 |
| — Amounts due to related parties | **138** | 339 |
| — Bank borrowings | **3,431,990** | 3,296,097 |
| — Lease liabilities | **44,654** | 55,875 |
| | **4,426,529** | 4,497,325 |

## 38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 April 2022.

# PARTICULARS OF PROPERTIES

| Name and location of property | Location | Purpose | Approximate gross floor area (square metres) | Contract term | Interest attributable to Group (%) |
|---|---|---|---|---|---|
| **Major properties in progress** | | | | | |
| 1. Nantong EVOC Intelligence Valley<br>The development block located at East of Dasheng Road, West of Zilang College, Gangzha District, Nantong City, Jiangsu Province | Nantong | Industrial | 144,726 | 2063 | 100 |
| 2. EVOC International Finance Center<br>EVOC International Finance Center, Huaqiao Town, Kunshan City, Jiangsu Province | Jiangsu | Commercial and office | 162,055 | 2052 | 100 |
| 3. Kunshan Dianshan Lake Project<br>Hemashiwan Community, Dianshanhu Town, Kunshan City, Jiangsu Province | Kunshan | Commercial and business | 106,224 | 2053 | 100 |
| 4. Wuxi SHIOC International Outsourcing Base Section A1<br>SHIOC International Section A1, Xishan District, Wuxi City, Jiangsu Province | Jiangsu | Commercial | 43,576 | 2044 | 100 |

| Name and location of property | Location | Purpose | Approximate gross floor area (square metres) | Contract term | Interest attributable to Group (%) |
|---|---|---|---|---|---|
| **Major properties completed** | | | | | |
| 1. EVOC Building<br>No. 31, Gaoxinzhong Si Road,<br>Nanshan District,<br>Shenzhen | Shenzhen | R&D office building and parking lot | 61,523 | 2053 | 100 |
| 2. Tianxiang Building<br>Unit Nos. 10B1 and 10B2,<br>Level 10, Tianxiang Building,<br>Tianan Cyber Park, Chegongmiao,<br>Futian District,<br>Shenzhen | Shenzhen | Plant | 1,152 | 2038 | 100 |
| 3. Guangming High Profile Office Park,<br>Guangming Hitech Park,<br>Boan District,<br>Shenzhen | Shenzhen | R&D office building, plant and apartment, parking lot | 245,482 | 2058 | 100 |
| 4. 60 units in Fu'an Yayuan,<br>Guanlan Street,<br>Bao'an District.<br>Shenzhen | Shenzhen | Residential use for staff quarters | 5,311 | 2080 | 100 |
| 5. Wuxi SHIOC International Outsourcing Base Section A1<br>SHIOC International Section A1,<br>Xishan District, Wuxi City,<br>Jiangsu Province | Jiangsu | Commercial, office, apartment, parking lot | 168,465 | 2044 | 100 |
| 6. Wuxi SHIOC International Outsourcing Base Section A2<br>SHIOC International Section A2,<br>Xishan District,<br>Wuxi City,<br>Jiangsu Province | Jiangsu | Commercial | 57,988 | 2044 | 100 |
| 7. EVOC City Plaza in Hangzhou<br>A parcel of development land located at the Northwest Corner of Cross of Jianghong Road and Binkang Road,<br>Bin Jiang District,<br>Hangzhou City,<br>Zhejiang Province | Zhejiang | Industrial | 65,510 | 2062 | 100 |

| Name and location of property | Location | Purpose | Approximate gross floor area (square metres) | Contract term | Interest attributable to Group (%) |
|---|---|---|---|---|---|
| 8. Nantong EVOC Intelligence Valley (Phase 1)<br>The development block located at East of Dasheng Road, West of Zilang College, Gangzha District, Nantong City, Jiangsu Province | Nantong | Industrial | 72,743 | 2063 | 100 |
| 9. Kunshan Dianshan Lake Project Phase 1 & Phase 2<br>Hemashiwan Community, Dianshanhu Town, Kunshan City, Jiangsu Province | Kunshan | Residential | 41,488 | 2083 | 100 |
| | | Office | 46,328 | 2053 | 100 |

# FINANCIAL HIGHLIGHTS

## COMPARISON OF KEY FINANCIAL FIGURES

| Financial year | | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| | | Year ended 31 December | | | | |
| Revenue | RMB'000 | **1,296,192** | 1,544,536 | 1,688,153 | 1,423,139 | 1,305,200 |
| Gross profit | RMB'000 | **566,905** | 568,193 | 463,199 | 216,026 | 177,332 |
| Gross margin | % | **43.7** | 36.8 | 27.4 | 15.2 | 13.6 |
| Profit for the year | RMB'000 | **166,180** | 210,538 | 263,154 | 156,940 | 35,481 |
| Net margin | % | **12.8** | 13.6 | 15.6 | 11 | 2.72 |
| Basic earnings per share (Note) | RMB | **0.135** | 0.171 | 0.213 | 0.127 | 0.029 |
| Net cash (used in)/generated from operations | RMB'000 | **(7,189)** | 629,181 | 125,174 | 134,320 | (195,913) |
| Trade receivables turnover | Days | **69** | 71 | 89 | 42 | 56 |
| Dividend per share | RMB | **—** | — | — | — | — |

## FINANCIAL POSITION

| Financial year | | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| | | Year ended 31 December | | | | |
| Total assets | RMB'000 | **8,364,396** | 8,181,014 | 7,188,888 | 6,255,690 | 5,591,708 |
| Total liabilities | RMB'000 | **5,374,204** | 5,381,614 | 4,611,214 | 3,996,346 | 3,523,349 |
| Total time deposits and cash and bank balances | RMB'000 | **2,445,429** | 2,486,422 | 1,281,633 | 1,079,953 | 681,100 |
| Shareholders' funds | RMB'000 | **2,990,192** | 2,799,400 | 2,577,674 | 2,259,344 | 2,068,359 |
| Net assets per share | RMB | **2.42** | 2.27 | 2.09 | 1.83 | 1.68 |

Note:

The calculation of basic earnings per share amounts is based on the profit attributable to owners of the Company for the year of RMB166,180,000 (2020: RMB210,538,000) and the 1,233,144,000 (2020: 1,233,144,000) ordinary shares in issue during the year.