INTRON TECHNOLOGY HOLDINGS LIMITED
英恒科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1760

2022

Annual Report

CONTENTS

FINANCIAL SUMMARY

For the Year Ended 31 December

	2022 **RMB'000**	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	**4,829,943**	3,176,164	1,993,190	2,309,299	2,016,690
Gross Profit	**1,040,613**	625,183	358,246	466,125	449,800
Gross Profit margin (%)	**21.5%**	19.7%	18.0%	20.2%	22.3%
Profit before tax	**454,920**	216,765	98,107	128,183	182,934
Profit attributable to owners of the parent	**414,963**	200,606	94,800	118,714	162,274

As at 31 December

	2022 **RMB'000**	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Total assets	**4,074,913**	2,858,894	2,054,378	2,272,639	1,972,656
Total liabilities	**1,926,276**	1,115,678	762,466	1,032,791	829,918
Equity attributable to owners of the parent	**2,137,982**	1,742,623	1,291,912	1,239,848	1,142,738

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Luk Wing Ming *(Chairman and Co-CEO)*
Mr. Chan Cheung Ngai *(Co-CEO)*
Mr. Chan Ming
Mr. Ng Ming Chee

Independent Non-executive Directors

Mr. Jiang Yongwei
Mr. Yu Hong
Mr. Tsui Yung Kwok

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1008-10, 10/F Delta House
3 On Yiu Street, Shatin
New Territories, Hong Kong

COMPANY SECRETARY

Mr. Ng Ming Chee

AUTHORIZED REPRESENTATIVES

Mr. Ng Ming Chee
Mr. Luk Wing Ming

AUDIT COMMITTEE

Mr. Tsui Yung Kwok *(Chairman)*
Mr. Jiang Yongwei
Mr. Yu Hong

REMUNERATION COMMITTEE

Mr. Jiang Yongwei *(Chairman)*
Mr. Yu Hong
Mr. Chan Cheung Ngai (appointed on 21 January 2022)
Mr. Luk Wing Ming (resigned on 21 January 2022)

NOMINATION COMMITTEE

Mr. Luk Wing Ming *(Chairman)* (appointed on 21 January 2022)
Mr. Jiang Yongwei
Mr. Tsui Yung Kwok
Mr. Chan Cheung Ngai (resigned on 21 January 2022)

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China
Bank of Shanghai
Bank of China (Hong Kong) Limited
BNP Paribas
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

STOCK CODE

1760

WEBSITE

www.intron-tech.com

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

With the stabilization of global pandemic and the easing of the pandemic controls by governments around the world, businesses and industries are gradually returning to normality. According to the data published by the China Association of Automobile Manufacturers (the "**CAAM**"), sales of automotive vehicles of the People's Republic of China (the "**PRC**") recorded a moderate growth of 2.1% for the year. Leveraging our investment in the new energy vehicle business over the past decade, various established competitive advantages, strong research and development ("**R&D**") capabilities, comprehensive product roadmap and solid relationships with partners such as customers and suppliers, we once again achieved stellar results for the year 2022 (the "**Year**"), with superior growth in both revenue and profit.

In 2022, the sales of new energy vehicles maintained high growth momentum. According to the data published by the China Passenger Car Association (the "**CPCA**"), the sales of new energy passenger vehicles reached 5.67 million units, representing a year-on-year increase of 2.69 million units. Tremendous changes have been happening in the vehicles market with new energy vehicles gradually replacing fuel ones. We made a head start in the field of new energy vehicle solutions, and took the lead in the successful development of the first new energy vehicle solution over 10 years ago. With continuous development, our solution portfolio has been able to cater for and meet the requirements of different automobile brand manufacturers with extensive offerings. With such advantages, we have been able to secure large market share and have consistently recorded higher growth than the overall market over the years. In 2022, the revenue of new energy vehicle business increased by 91% year-on-year, continuing to be a major growth driver for our business. In addition, the revenue of the Group's other automotive solutions continues to grow, especially automated & connected vehicles solutions, which maintained its rapid growth. New energy vehicles solutions and automated & connected vehicles solutions will drive the future growth of the Group.

To provide a more comprehensive picture of the Group's business focus and development plan, we have reclassified our business segments in 2022. The new energy vehicle solutions business continued to stand out. The automated & connected vehicles solutions business has become a stand-alone segment, while it started with a relatively lower base in terms of revenue, it demonstrated the highest growth rate among all business segments, with revenue up 151% year-on-year. Such outstanding performance is the fruit of the Group's investment over the years. The core solutions of this business segment, including Advanced Driver-assistance System/Auto-driving, intelligent and connected solutions, and new energy vehicle solutions are the focus of the Group's business development as well as the catalyst for our sustainable growth.

R&D has always been the cornerstone of the Group's success. During the Year, the Group continued to actively invest to improve our R&D capabilities and maintain our competitive edge. Our investment in R&D increased by 61% year-on-year and the number of R&D personnel increased by 31% to 916, accounting for 67% of the Group's total employees. In 2022, the G-Pilot3 intelligent driving system developed by the Group was officially delivered, and obtained the first Matrix hardware certification from Horizon Robotics. Moreover, we have collaborated with Horizon Robotics in hardware as an Independent Design House (IDH), delivering the first automated driving domain controller product solution (MADC2) and supporting technical services based on the Journey®5 chip. In addition, in order to better serve the intelligent vehicle developers in China and overseas, we launched OPEN-ECU project to empower the development of the automotive industry, which has gained the participation and support from various ecological partners in the industry, demonstrating the recognition in the Group's R&D capabilities and leading technologies.

In addition, the Chengdu and Shanghai R&D Centers were officially in operation to further expand the R&D and service layout of intelligent automotive software platform solutions. In 2022, the R&D Testing and Validation Center in Shanghai steadily increased its testing and validation capabilities to continue to meet the demand in the Group's testing business, and the overall testing volume undertaken exceeded that of 2021 despite the impact of the pandemic. Qingheng Automotive Electronics Co., Ltd. (上海氫恒汽車電子有限公司) ("**Qingheng**"), a subsidiary of the Group, has already operated independently, and has secured tens of millions of RMB strategic investment from a strategic investor for the first time in less than one year after its establishment. This will enable Qingheng to swiftly enhance the competitiveness of its products, and incubate new development fields to cater for the Group's external development, allowing us to better grasp the business opportunities and accelerate market expansion.

Witnessing our fifth year in the capital market, the Group has achieved notable financial results and capital market performance, and was included in the MSCI China Index in November 2022. This highlighted the recognition of the Group's business development by the capital market. The inclusion will also facilitate the Group to gain traction from more institutional investors and overseas funds.

Looking ahead, the continuous implementation and enforcement of the PRC government's supporting policies on new energy vehicles will further stimulate the consumption vitality of the automobile market. The Group will continue to prioritize R&D, pay close attention to the latest market developments, develop key technologies, and expand and deepen business cooperation with various automobile manufacturers to better prepare for future market opportunities. Meanwhile, the Group will proactively seek opportunities for acquisitions and strategic alliances to further strengthen its business foundation and expand its business footprint, to strive for a dominant market share and the long-term growth of the Group's business, also to continue to bring satisfactory returns to the shareholders of the Company.

APPRECIATION

On behalf of the Board, we would like to express our heartfelt gratitude to all of our Shareholders, customers, suppliers and business partners for their support over the years. Meanwhile, we are grateful to the Group's management team and staff for their diligence and contributions to the Group.

LUK WING MING
Chairman and Co-CEO

CHAN CHEUNG NGAI
Co-CEO

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY

According to the data published by the China Association of Automobile Manufactures ("**CAAM**"), the overall sales of automotive vehicles in the PRC in 2022 increased by 2.1% year-on-year to 26.9 million units, continuing the upward momentum while marking the booming and rapid development of new energy vehicles. With favorable policies from Chinese government and increased awareness on environmental protection of consumers in China, the new energy vehicle market has witnessed an explosive growth. The retail sales of passenger vehicles for the Year in China reached 5.67 million units, representing an increase of 90% year-on-year, and the market share increased to 26%. New energy vehicles have further expanded their share in the overall automotive vehicle market, and this trend is expected to continue.

As a fast-growing automotive electronics solutions provider in China, the Group's business performance during the Year continued to benefit from the rapid growth of new energy vehicle business sector, and recorded robust business performance that outperformed the market by virtue of its own successful unique business model, leading R&D capabilities and execution in relevant sectors, as well as outstanding competitive advantages. For the year ended 31 December 2022, the total revenue of the Group grew significantly by 52% year-on-year to RMB4,829.9 million. In particular, the core solutions of new energy vehicles business continued to be main drivers for the Group's profit, and its revenue increased significantly by 91% year-on-year, accounting for 43% of the Group's overall revenue. Meanwhile, the automated & connected vehicles solutions business also performed well, and its revenue surged by 151% year-on-year. The Group made a head start by investing in the automated & connected vehicles business with leading technology in the market. With continuous development of advanced automotive technology, the market prospects of this business are promising, which will become a strong driving force for the business growth of the Group.

In order to maintain its competitive edge and leading position in the industry, the Group continued to allocate resources to R&D. The total R&D expenses in 2022 was RMB332.5 million, representing an increase of 61% year-on-year, while the R&D expenses accounted for 6.9% of the total revenue during the Year, representing a slight increase from 6.5% in the previous fiscal year.

BUSINESS REVIEW

The Group has entered a new stage of growth since 2022. China's automotive industry continued to develop in an innovative manner with emergence of technologies including new energy vehicle, intelligent driving and hydrogen fuel-cell vehicle. In addition, the Group has been actively exploring new business possibilities over the years, and has established the R&D technological platform and the commercialization platform ahead to service the market. The Group's major businesses recorded faster growth than the market, bringing the overall development of the Group to a new stage.

The global shortage of semiconductor, which has persisted for several years, has been exacerbated by the outbreak of pandemic, and the structural shortage will continue. However, the Group's leading technology provides customers with different solutions to address the structural semiconductor shortage, and the Group has established strong long-term business partnership with semiconductor suppliers. As a result, semiconductor supply has not been affected, and the Group's ability to meet customer needs has demonstrated its unique strength. The Group has attracted new customers while strengthening partnership with existing customers, allowing the Group to expand its customer base and facilitate its business development.

In order to enable shareholders and investors to better understand the Group's business priorities and development paths, the relevant business revenues have been reclassified as follows:

New Energy:	Core solutions related to electric vehicles and hydrogen fuel-cell vehicles, including solutions related to core electric powertrain control systems and thermal management system;
Body Control:	Electronic solutions for body control systems;
Safety:	Solutions related to safety systems;
Powertrain:	Solutions related to powertrain systems;
Automated & Connected Vehicles:	Advanced Driver-assistance System/Automated Driving System (ADAS/AD), core solutions related to intelligent driving and connected automotive;
Cloud Server:	Electronic solutions related to power management of data centers/cloud servers; and
Rendering of Services & Others:	R&D services and other income

In 2022, the Group's overall revenue increased significantly to RMB4,829.9 million, representing a significant increase of 52% as compared with last year, mainly due to the increased demand arising from surging sales volume in China's new energy vehicle market, coupled with the emerging results of the automated & connected vehicles business in which the Group has invested for many years and gains from continuous growth of other automotive solutions. Gross profit was RMB1,040.6 million, representing an increase of 66% year-on-year, and gross profit margin also increased from 19.7% in last year to 21.5%. The Group will continue to provide customers with automotive electronics solutions of outstanding value and in mass production, and provide platform services for the industrial chain.

While expanding its business, the Group continues to invest in R&D to maintain its leading technology and innovation to address the future development of the market. In 2022, the Group's R&D expenses accounted for 6.9% of total revenue. The total investment in R&D has increased by 61% year-on-year as a result of the increase in total revenue. Despite the impact of the US interest rate hike cycle and interest rate fluctuations during the Year, net profit still surged by 105% to RMB411.1 million as compared with last year, and net profit margin increased by 2.2 percentage points to 8.5%, with efficient operation of the Group's overall business and the scale effect of R&D, especially in solutions development and technology research projects.

New Energy Vehicle Solutions

The impact of unstable oil prices and increasing awareness on environmental protection of consumers have increased the popularity of new energy vehicles. As an industry leader, the Group has seized the market opportunities, and has completed the development and testing of relevant solutions and products, and further achieved large scale delivery during the Year. The business performance of new energy vehicle solutions continued to outperform the overall market level, and the revenue increased significantly by 91% year-on-year to RMB2,066.8 million, which remained the main growth driver of the Group's business, accounting for 43% of the total revenue during the Year.

The Group provides advanced mass production solution services, and has developed different core technologies of Electronic Control Unit (ECU), including power electronics, embedded software, functional safety and system integration, allowing it to stand out in the rapidly changing market environment and meet the different needs of customers in a comprehensive manner. On the other hand, the Group continues to optimize and improve the core electric vehicle related three electronic control solutions (Battery Management System ("**BMS**"), Motor Control Unit, Vehicle Control Unit) and thermal management system to further increase market penetration.

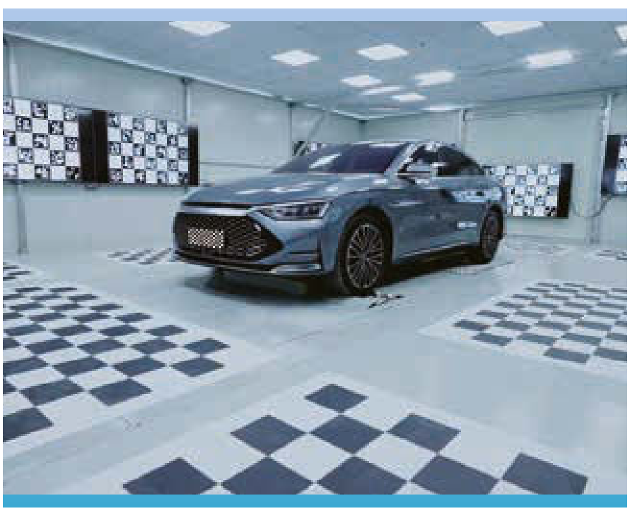
During the Year, the Group's end customers continued to comprise automotive makers and automotive manufacturing brands (the "**OEMs**"), including the top ten renowned Chinese new energy passenger vehicles brands.

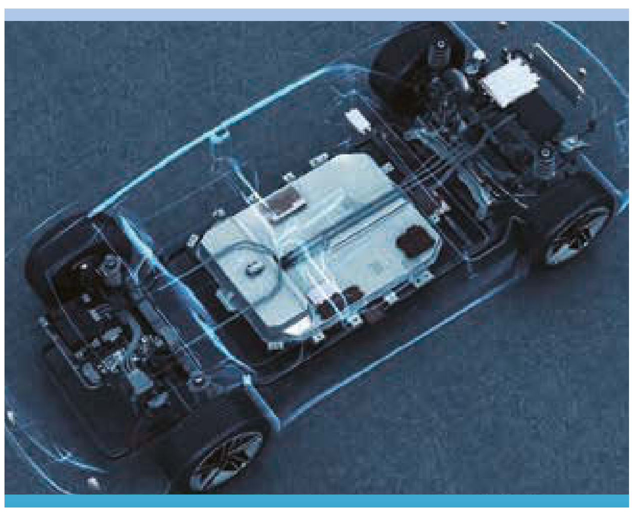
Body Control/Safety/Powertrain Solutions

For the year ended 31 December 2022, revenue from this business segment continued to grow steadily, the revenue from body control, safety and powertrain solutions increased by 50%, 34% and 40% year-on-year, respectively, as compared to the corresponding period last year. The body control system benefited from mass production of new projects, increased demand from key customers and more automotive lighting solutions; safety system mainly benefited from the increase in the number of customers and higher unit price, especially for braking and steering applications; and powertrain system benefited from the increased orders of diesel and gasoline Electronic Fuel Injection (EFI) solutions.

Automated & Connected Vehicles Solutions

Since 2022, the Group has officially re-classified the automated & connected vehicles solutions as a separate segment of business to present and analyze its business performance in a more accurate manner, and capture the market opportunities of automated driving, intelligent driving and connected vehicles. After such classification, the business recorded revenue growth of 151% to RMB254.8 million for the Year, mainly due to significant increase in installation rate and penetration rate.





During the Year, the Group collaborated with automotive makers and tier 1 suppliers on mass production projects, including ADAS controllers at L1-L2 level and domain controllers for L2+ automation level. The mass production projects of controllers in related fields have been delivered in batches, continuing to serve as the growth driver of this business and laying a solid foundation for future development. In addition, the Group completed two solutions based on Journey®5 of Horizon Robotics during the Year, namely the MADC2.0 and MADC2.5 products. In terms of connected vehicles, the segment benefited from the general trend of digital transformation in the automotive industry. Business growth mainly came from a number of new advanced driver-assistance/automated driving projects, as well as the continuously increasing penetration of the new generation of Electrical and Electronic Architecture in new energy vehicles. During the Year, the Group cooperated with customers on mass production projects, and the R&D projects cooperated with automotive makers included service-oriented gateway software development service projects, UISEE Internet of Vehicles intelligent terminal controller project and hybrid gateway controller project cooperated with Baidu, which have been tested on a specific road section, with small batch production at present, and it is planned to increase the mass production subsequently.

In terms of products and solutions development, the Group has maintained close cooperation with Beijing Horizon Robotics Technology R&D Co., Ltd. (北京地平線機器人技術研發有限公司) ("**Horizon Robotics**"), a leading artificial intelligence chip company in the PRC, for many years. During the Year, in terms of smart cockpit, the two parties cooperated on the development of new functions of new sensors, the development of access and functional scenarios of time of flight (ToF) sensor vehicles, the development of underlying software and the development of hardware platform. The Group also cooperated with end automotive makers, including a number of renowned Chinese new energy passenger vehicles brands and new electric car start-up brands.

Cloud Server Related Solutions

The Group's "Industrial Solutions" business has been reclassified to "Cloud Server Related Electronics Solutions" since 2022 with no change of its business nature, mainly to correctly reflect that the revenue categories include power management and electronic control solutions designed for high-performance CPUs and graphics processors used in data centers and cloud servers. During the Year, revenue from this business declined by 24% to RMB420.5 million, mainly due to a slowdown in new projects over the past year after significant growth and completion of the global server market during the earlier pandemic period.

Research and Development and Group Development

R&D has always been an integral part of the Group's business model. Electrification and intelligence are seen as a global trend of the automotive industry. The Group has maintained its technological advantages in this field and is confident in its long-term R&D strategy, which helps to expand its market share in the future and continuously promote its long-term business growth. During the Year, the Group continued to increase its investment in R&D to further consolidate its R&D capabilities. R&D expenses increased by 61% year-on-year to RMB332.5 million, accounting for 6.9% of annual revenue. As at 31 December 2022, the Group had 916 full-time R&D-related professionals, representing 67% of its total employees. As of 31 December 2022, the Group has secured 235 patents and 187 software copyrights, representing an increase of 64 patents and 45 software copyrights, respectively as compared with last year.

In terms of R&D, the Group has achieved a number of achievements, including the development of an 800V high-voltage BMS platform solution certified as a functional safety product, the automated driving domain controller unit technology platform solution developed based on the Journey®5 of Horizon Robotics, and 59 intellectual property rights that contain 6 invention patents. During the Year, the Group established and maintained a development system that meets the standards of ASPICE (Automotive Software Process Improvement and Capability Determination), ISO26262 and ISO21434; completed the digital transformation of the R&D system to ensure the project development process and quality; integrated the development tool chain to break the barriers of information transfer among the tool chains; built an industry-leading automotive software platform and R&D process system to meet a variety of development models and delivery methods; established platform-based development of products, and supported product project deformation development to speed up customer delivery; established standardized software and hardware module library, and utilized development and design experience and verification to improve product quality; and supported SOA (Service-oriented Architecture) development process, supported decomposition of product requirements to implementation, and established standard equipment abstraction layer and atomic service layer standard library to support application service customization.

Shanghai G-Pulse Electronics Technology Company Limited (上海金脈電子科技有限公司) ("**G-Pulse**"), the Group's wholly-owned subsidiary, was awarded the ISO/SAE 21434:2021 Automotive Network Security Management System Certificate by SGS, an international authoritative testing and certification organization. The G-Pilot3 intelligent driving system, independently developed with Journey®3 vehicle smart chip of Horizon Robotics, was also officially certified with Matrix standard hardware design of Horizon Robotics.

In addition, the Group's software platform addressed common functional components on the one hand, and focused on the compatibility of cross-processor platforms and cross-application system function support on the other hand. The Group has already completed the deployment on platforms of Infineon, Horizon Robotics and SemiDrive and applied them to the development of automated driving, netlink and certain regional controller products, which is expected to further increase its market penetration.

The large-scale R&D testing and validation center in Shanghai focuses on the development and introduction of new testing equipment design to cater for the development of the Group's product lines. During the Year, the center's testing and validation capabilities in four main business products of New Energy Vehicle Drivetrain Electronic Control Units, thermal management electric control, intelligent domain control and hydrogenated electric control have been steadily improved, and have begun to take shape. The current testing and validation capabilities and external cooperative testing institutions can meet the current demand of the Group's testing business. In addition, the center continued to plan testing and validation capabilities to meet new business trends and insist on the design, development and introduction of advanced testing methods and testing equipment to cater for the development of the Group's product lines. During the Year, the center undertook nearly 500 testing tasks within the Group, and the overall testing volume still exceeded that of 2021 despite the impact of the pandemic. To further enhance the testing and validation capabilities, the Group completed the phase I construction of its EMC (Electromagnetic Compatibility) testing facilities and controlled the R&D process and quality through the ASPICE development system. In late 2021, the Group has commissioned the phase II construction of EMC testing facilities, which was officially put into operation upon completion of delivery in the third quarter of 2022. At the same time, the Chengdu R&D center was officially put into operation, mainly responsible for expanding the R&D and service layout of intelligent automotive software platform solutions.

In the second half of 2022, the Group expanded its satellite R&D office space in Chengdu, Changchun and Shanghai by approximately 3,000 square meters in aggregate. On the other hand, the Group's automated driving standardization laboratory was officially launched to mainly promote the industrialization and batch delivery of automated driving solutions such as intelligent board domain controllers, front view camera controller and millimeter wave radars. In addition, the Group plans to set up a R&D center in Hong Kong, which will mainly be used for research and development of automated & connected vehicles software, advanced power semiconductor applications and collaborative robot solutions, and is expected to officially put into operation in 2023, preparing the Group to follow the Chinese automobile brands to expand overseas.

In terms of hydrogen energy development, Shanghai Qingheng Automotive Electronics Co., Limited (上海氫恒汽車電子有限公司) (“**Qingheng**”), a subsidiary of the Group, had secured multi-million RMB strategic investment in July 2022 from Huzhou Yongming Equity Investment Partnership (Limited Partnership) (湖州涌銘股權投資合夥企業(有限合夥)), a subsidiary fund of the strategic investor Shanghai Yonghua Investment Management Company Limited (上海涌鏵投資管理有限公司). The investment provided it the working capital required for the development and market expansion of innovative products, allowing it to build a technological development service platform for hydrogen energy and strengthening the Group’s overall competitiveness in the market. While taking the lead in the development and validation of air compressor controllers in China, Qingheng has also officially achieved batch delivery, providing two heavyweight controllers for domestic leading hydrogen fuel cell system companies.

Outlook

The Group believes that the localization rate of the overall automobile market will continue to increase and the new energy vehicle market will continue to grow, with intensified market competition. However, the Group’s management has a proactive sense of the industry’s development, and maintains a leading position in R&D investment and solutions development. Therefore, the Group is still confident in the long-term development of the current business segments.

The CAAM forecasts that China’s new energy vehicles will continue to grow rapidly in 2023, with sales expected to exceed 9 million units. As such, the Group believes that the long-term growth trend of new energy vehicle solutions and automated & connected vehicles will continue, and the Group will also continue to invest in R&D and enhance business economies of scale.

In terms of core solutions for new energy electric vehicles, the Group expects that these solutions will further drive the overall business performance of the Group in 2023 due to the market growth potential of this business, and continues to be optimistic about its future growth.

The Group remains optimistic about the outlook of the body control, safety and powertrain business segments. With increased local demand, more customers and orders as well as higher unit price, the Group believes that all these three businesses will continue to bring positive revenue contributions.

In terms of cloud server, the Group will be more prudent in this business as the global economy is still shadowed by interest rate hikes and the consumer market needs to recover, but believes that the impact will be fully made up by the satisfactory growth of the Group’s other businesses.

In terms of the automated & connected vehicles, the Group is currently developing integrated driving and parking domain controller, as well as integrated cockpit and parking domain controller, which are expected to be launched in the second quarter of 2023. MADC2.0 and MADC2.5 products will launch OPEN-ECU project in 2023 to further expand their influence and empower product development of its customers. In addition, the Group will actively carry out technology R&D and localization solution development. For smart antenna controllers, a vehicle communication control unit incorporating V2X, UWB and 5G communication will be launched to the market in the second quarter of 2023. For digital key peripheral distance solutions, it will be integrated into smart terminal related solutions of the Internet of vehicles in the third quarter of 2023 to form intellectual property rights to enhance its competitiveness. For solutions that combine remote diagnosis with local diagnosis, it will be integrated into hybrid gateway products in the second quarter of 2023 to enhance its competitiveness. The Group is developing various cross-platform service-based connected products by cooperating with domestic semiconductor companies such as SemiDrive, and the products are expected to be launched in the second quarter of 2023 to widen the gateway solution spectrum.

R&D has always been the basis for the sustainable development of the Group's business. The Group's R&D will mainly focus on the automated & connected vehicles and the development of the third generation of semiconductor products in the future, so as to fully cater for the development of electrification and intelligence. On the one hand, the Group intends to expand its testing capacity in 2023 with planned investments in equipment, mainly for ADAS hardware in environment testing system, SOTIF (Safety of the Intended Functionality) scenario testing database, EMC design validation, HALT (Highly Accelerated Life Testing), environment reliability testing and other auxiliary testing equipment, so as to continue to meet the demand of the testing business and future development needs. On the other hand, the Group has set ADAS as the next major opportunity in the automotive market a few years ago, and the years of investment have been proven fruitful, with commencement of ADAS delivery in 2022, which will realize scale delivery in 2023.

In the future, the Group expects that Qingheng will work closely with leading semiconductor companies to optimize the model and design of SiC (silicon carbide) devices, develop more cost-effective solutions, enhance its market competitiveness and expand its market share to gain a presence.

On 14 February 2023, the Group announced that it had secured a syndicated loan of US$60,000,000 led by Hang Seng Bank, for a period of three years, demonstrating the confidence of the capital markets in the Group's prospects and greatly enhancing the liquidity of the Group, which is well positioned to capitalize on the promising automotive brand market in China.

Looking ahead, the market is full of challenges as well as opportunities. With years of experience in the industry, the management of the Group is able to observe the market trends by making substantial R&D investment, and continue to deliver business growth with a sound business foundation to generate consistent returns for the shareholders of the Company (the "**Shareholders**").

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, total revenue increased 52% year-on-year to RMB4,829.9 million (31 December 2021: RMB3,176.2 million) mainly due to the increases in all of the motor business segments of the Group. The New Energy Vehicle business performed particularly well and recorded continual strong growth. In addition, the Automated and Connected Vehicles Solutions recorded robust growth.

The following table sets out the Group's revenue breakdown by segments during the indicated years:

	31 December 2022 *RMB'000*	31 December 2021 *RMB'000*	Change
New Energy	**2,066,806**	1,082,102	**91%**
Body Control	**867,984**	578,518	**50%**
Safety	**635,996**	476,269	**34%**
Powertrain	**431,940**	308,857	**40%**
Automated & Connected Vehicles	**254,781**	101,378	**151%**
Cloud Server	**420,480**	549,814	**-24%**
Rendering of Services & Others	**151,956**	79,226	**92%**
Total	**4,829,943**	3,176,164	**52%**

Gross Profit and Gross Profit Margin

For the year ended 31 December 2022, the Group's gross profit increased by 66% to RMB1,040.6 million compared with the year before. The gross profit margin increased from 19.7% last year to 21.5%.

Other Income and Gains

The Group's other income and gains mainly included bank interest income, government grants, gains on financial assets and others. For the year ended 31 December 2022, other income and gains increased by 31% to RMB39.9 million, mainly due to the increase in gain on disposal of financial assets at fair value through profit or loss and fair value gain on financial assets at fair value through profit or loss.

Selling and Distribution Expenses

Selling and distribution expenses mainly consist of salaries, benefits and equity-settled share option expense for staff, insurance costs, warranty expenses, travelling expenses, marketing expenses, and administrative depreciation related costs. During the Year, the Group's selling and distribution expenses amounted to RMB106.3 million, up by 6% as compared with 2021. The increase was mainly attributable to the rise in labour costs and travelling expenses to support the business growth.

Administrative Expenses

Administrative expenses mainly consist of (a) R&D expenses; and (b) other administration expenses including salaries, benefits and equity-settled share option expense for the management, administrative and financial personnel, administrative costs, depreciation expenses relating to property, plant and equipment used for administrative purposes, amortisation expenses for the management information systems, other taxes and levies.

During the Year, administrative expenses amounted to RMB427.2 million, representing an increase of 36% as compared with 2021. In particular, (a) R&D expenses charged to administrative expenses amounting to RMB312.3 million, together with the amortisation of deferred development costs RMB20.2 million charged to cost of sales, the total R&D expenses amounted to RMB332.5 million accounting for 6.9% of revenue. The 61% increase in R&D expenses as compared with 2021 was beneficial to the development of solutions and products to capture the enormous market growth in future; and (b) other administrative expenses amounted to RMB114.9 million, representing an increase of 7% as compared with 2021, which was mainly due to higher labour costs, travelling expenses, office and other related expenses.

Other Expenses

During the Year, other expenses mainly consist of foreign exchange differences and others. These expenses amounted to RMB49.6 million in 2022, representing an increase of 2,511% as compared with 2021, which was mainly due to increase in foreign exchange losses.

Finance Costs

During the Year, finance costs, which mainly consist of interest expenses on acceptance bills and borrowings, amounted to RMB44.5 million, representing an increase of 89% as compared with 2021, which was due to the increase in bank borrowings to facilitate the business growth as well as the rise of bank borrowing rate.

Income Tax Expense

During the Year, income tax expense was RMB43.8 million, representing an increase of 165% year-on-year, which was mainly attributable to the significant growth in profit before tax.

Profit for the Year

The Group's net profit for the Year increased by 105% from RMB200.2 million for the year ended 31 December 2021 to RMB411.1 million for the year ended 31 December 2022 due to higher gross profit and net profit driven by significant business growth.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group continued to maintain a satisfactory and healthy liquidity position. As at 31 December 2022, the Group had total cash and cash equivalents of RMB336.9 million (31 December 2021: RMB571.7 million).

The Group recorded net current assets of RMB1,444.2 million (31 December 2021: RMB1,196.9 million). Capital expenditure for the Year was RMB78.7 million, which were mainly used for addition of R&D equipment and improvement of R&D infrastructures facilitating multi-location R&D supports and services to customers.

As at 31 December 2022, the gearing ratio of the Group was 41% (31 December 2021: 21%), which represents net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes interest-bearing bank and other loans, trade and notes payables, other payables and accruals, less cash and cash equivalents and pledged deposits.

As at 31 December 2022, the Group had outstanding bank loans amounting to RMB950.2 million (31 December 2021: RMB631.7 million). The bank loans of the Group denominated in US$ and RMB amounted to RMB789,288,000 (2021: RMB527,901,000) and RMB160,933,000 (2021: RMB103,769,000), respectively. Should other opportunities arise requiring additional funding, the Group is in a good position to obtain such financing.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company (the "**Share(s)**") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 July 2018 with net proceeds received by the Company from the Global Offering (as defined in the prospectus of the Company dated 29 June 2018 (the "**Prospectus**")) amounted to HK$766.7 million (equivalent to RMB655.4 million), after deducting the underwriting fees, commissions and all related expenses (the "**Net Proceeds**").

As disclosed in the announcement of the Company dated 12 July 2019, having reassessed the funding needs for the enhancement of the Group's overall R&D infrastructure, the Board has resolved to amend the proposed use of part of the Net Proceeds originally allocated for the enhancement of the Group's R&D infrastructure by investing in and acquiring testing and other equipment, and technology software to accelerate the Group's solutions development cycle and thus increase exposure of the Group's solutions to customers to enhancement of the Group's R&D infrastructure by (i) investing in and acquiring testing and other equipment, and technology software to accelerate the Group's solution development cycle and thus increase exposure of the Group's solutions to customers; and (ii) investing in, acquiring and renovating properties for R&D purposes.

During the Year, the Net Proceeds have been used for the purpose consistent with the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus and the announcement of the Company dated 12 July 2019.

Details of the planned applications of the Net Proceeds, original and revised allocation of the Net Proceeds, and the utilization of the Net Proceeds as at 31 December 2022 are set out below:

Use of proceeds	**Planned applications** *(RMB million)*	**Percentage of total Net Proceeds** *(%)*	**Actual usage up to 31 December 2022** *(RMB million)*	**Unutilized Net Proceeds as at 31 December 2022** *(RMB million)*	**Expected timeframe for utilizing the remaining unused Net Proceeds**
1. For the expansion of research and development capabilities	196.6	30	196.6	0	N/A
2. For the enhancement of research and development infrastructure	196.6	30	196.6	0	N/A
3. For the acquisitions of research and development capabilities	196.6	30	116.3	80.3	Expected to be fully utilized by end of 2024*
4. General working capital	65.6	10	65.6	0	N/A
Total	655.4	100	575.1	80.3	

* The COVID-19 pandemic has created economic uncertainties and caused disruptions to a wide range of economic activities. As a result, with continuous assessment on the risk and opportunity for the acquisition of research and development capabilities, the expected timeframe for utilizing the remaining unused net proceeds is extended to 2024 from 2022.

PLACING OF SHARES

On 26 January 2021, the Company and BNP Paribas Securities (Asia) Limited (the "**Placing Agent**") entered into a placing agreement (the "**Placing Agreement**"), pursuant to which and subject to the terms and conditions therein, the Company agreed to appoint the Placing Agent, and the Placing Agent agreed to act as placing agent for the purpose of procuring on a best efforts basis, as agent of the Company, placees to purchase up to 45,000,000 new Shares to be issued by the Company and to be placed pursuant to the Placing Agreement (the "**Placing Shares**") at HK$6.82 per Placing Share (the "**Placing Price**") on the terms and subject to the conditions set out in the Placing Agreement.

On 3 February 2021, an aggregate of 45,000,000 Placing Shares have been successfully allotted and issued to not fewer than six independent placees at the Placing Price (the "**Placing**") and the Placing was completed on the same day. The aggregate nominal value of the Placing Shares was HK$450,000 and the closing price as quoted on the Stock Exchange on 26 January 2021, being the date of the Placing Agreement, was HK$8.51 per Share. The net price per such Placing Share was approximately HK$6.73. The net proceeds from the Placing amounted to HK$302.8 million (equivalent to approximately RMB252.6 million). Immediately after completion of the Placing, the Shares held by the placees accounted for 4.15% of the issued share capital of the Company. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the placees and their respective ultimate beneficial owners are independent third parties of the Company. None of the placees has become a substantial Shareholder (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) immediately after completion of the Placing.

For details of the Placing, please refer to the announcements of the Company dated 26 January 2021 and 3 February 2021.

During the Year, the net proceeds from the Placing have been used for the purpose consistent with that disclosed on the aforementioned announcements. The planned applications of the net proceeds from the Placing, actual usage of such net proceeds up to 31 December 2022 and the expected timeframe for utilizing the remaining unused net proceeds from the Placing are set out below:

Use of proceeds	**Planned applications** *(RMB million)*	**Percentage of total net proceeds** *(%)*	**Actual usage up to 31 December 2022** *(RMB million)*	**Unutilized net proceeds as at 31 December 2022** *(RMB million)*	**Expected timeframe for utilizing the remaining unused net proceeds**
1. Developing software platform towards intelligent driving solutions	62.0	25	43.0	19.0	Expected to be fully utilized by end of 2023
2. Further developing software systems and electronic controls solutions for automotive electric vehicle	35.0	14	25.9	9.1	Expected to be fully utilized by end of 2023
3. Application of higher power semiconductor solutions	35.0	14	29.2	5.8	Expected to be fully utilized by end of 2023
4. Further developing the Group's testing and validation centre for intelligent driving	62.0	25	42.0	20.0	Expected to be fully utilized by end of 2023
5. General working capital	58.6	22	58.6	0	N/A
Total	252.6	100	198.7	53.9	

CAPITAL COMMITMENT

As at 31 December 2022, the Group had capital commitments contracted, but not provided for, amounting to RMB4.8 million (31 December 2021: RMB3.1 million).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the Year, the Group did not have any significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures (31 December 2021: Nil).

PLEDGE OF ASSETS

As at 31 December 2022, certain of the Group's bank loans, letter of guarantee and notes payable were secured by the pledge of certain of the Group's deposits amounting to RMB48,861,000 (2021: RMB32,246,000).

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE EXPOSURE

The Group primarily operates in the PRC with a mixed currency revenue source. It is therefore exposed to foreign currency risk arising from fluctuations in exchange rates between the RMB and other currencies in which it conducts its business. The Group is subject to foreign currency risk attributable to its bank balances, trade and other receivables and payables as well as bank loans that are denominated in currencies other than the RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position. The Group also minimises loss caused by foreign exchange fluctuations through cost transfer by adjusting prices offered to customers and considers supplementing with foreign exchange forward contracts when necessary.

During the Year, the Group managed foreign currency exchange rate fluctuations by the aforesaid means to mitigate such exposure. The Group will closely monitor the change in foreign exchange rates to manage currency risks and consider necessary actions as required.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had 1,359 employees (31 December 2021: 1,098 employees). The Group's labour costs (including salaries, bonuses and equity-settled share option and award expense, pension and welfare but excluding directors' and co-chief executives' remuneration) were RMB481.3 million, equivalent to 10% of the Group's revenue for the Year (2021: RMB361.4 million).

The Group provides attractive salary packages, including competitive basic salary plus annual performance bonus, as well as arranging on-going special training to employees to facilitate their promotion within the organisation and enhance their loyalty to the Company. The Group's employees are subject to regular work performance appraisal to evaluate their promotion prospects and salary. The latter is decided with reference to market practice and the performance, qualifications and experience of the individual employee as well as the results of the Group.

As at 31 December 2022, the Group had a total of 60,278,050 outstanding share options granted to eligible employees under the share option scheme adopted on 22 June 2018, to enhance attractiveness in compensation as well as motivation for employee performance. For details, please refer to the announcements of the Company dated 21 January 2019, 30 September 2020, 18 May 2021 and 25 November 2022, respectively.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for its employees in Hong Kong. The Group did not record any forfeited contribution from the MPF Scheme for the year ended 31 December 2022 to reduce the existing level of contributions (for the year ended 31 December 2021: Nil).

The Group's employees in the PRC participate in various defined contribution schemes managed by local government authorities, pursuant to which the Group pays a stipulated percentage of payroll costs as contributions to the schemes. The Group has no obligations to pay further contributions and no forfeited contributions were available to the Group to reduce the existing level of contributions.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to upholding high standards of corporate governance practices and business ethics in the firm belief that they are crucial to improving the efficiency and performance of the Group and to safeguarding the interests of the shareholders. The Board reviews the Company's corporate governance practices from time to time in order to meet the expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance. Set out below are the principles of corporate governance as adopted by the Company during the year ended 31 December 2022.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability. The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code during the Year, except for a deviation from the code provision C.2.1 of the CG Code that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. Luk Wing Ming is our Chairman and co-CEO responsible for strategic development and business operations. Our Board believes that this arrangement will improve the efficiency of our decision making and execution process. Further, the Group has put in place an appropriate check- and-balance mechanism through the Board and the independent non-executive Directors. In light of the above, our Board considers that the deviation from code provision C.2.1 of the CG Code is appropriate in the circumstance of our Group.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code during the Year.

At the same time, since the Listing Date, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required of a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time in performing them.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

As of the date of this annual report, the Board comprises four executive Directors and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors

Mr. Luk Wing Ming *(Chairman and Co-CEO)*
Mr. Chan Cheung Ngai *(Co-CEO)*
Mr. Chan Ming
Mr. Ng Ming Chee

Independent Non-executive Directors

Mr. Jiang Yongwei
Mr. Yu Hong
Mr. Tsui Yung Kwok

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 42 to 45 of this annual report.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Save as disclosed above, the Directors do not have any other financial, business, family or other material/relevant relationships with one another.

BOARD OF DIRECTORS (CONTINUED)

Chairman and Chief Executive Officer

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

In view of Mr. Luk Wing Ming's experience, personal profile and his roles in our Group as mentioned above and that Mr. Luk has assumed the role of chief executive officer of our Group since our commencement of business, the Board considers it beneficial to the business prospect and operational efficiency of our Group that upon Listing, Mr. Luk acts as the chairman of the Board and continues to act as the co-chief executive officer of our Company. While this constitutes a deviation from code provision C.2.1 of the CG Code, the Board believes that this structure does not impair the balance of power and authority between the Board and the management of the Company, given that: (i) the power and authority is shared with the Company's other co-chief executive officer, Mr. Chan Cheung Ngai; (ii) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises three independent non-executive directors out of seven Directors, which is more than the Listing Rules requirement, and we believe that there is sufficient check and balance in the Board; (iii) Mr. Luk and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iv) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

Independent Non-executive Directors

During the Year, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing one-third of the Board, with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the requirements set out in the Listing Rules.

BOARD OF DIRECTORS (CONTINUED)

Appointment and Re-election of Directors

Each of the Directors is engaged on a service contract (in the case of the executive Directors) or a letter of appointment (in the case of the independent non-executive Directors) for a specific term of three years, which is renewable by mutual consent and subject to the articles of association of the Company (the "**Articles of Association**").

The Articles of Association provides that all Directors appointed to fill a casual vacancy or as an addition to the Board shall be subject to re-election by shareholders at the next following annual general meeting of the Company.

Every Director (including those appointed for a specific term) shall also be subject to retirement and re-election by rotation at least once every three years at the annual general meetings of the Company under the Articles of Association.

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgment on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

BOARD OF DIRECTORS (CONTINUED)

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that they remain informed and relevant for their contribution to the Board.

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Besides, meetings with senior management of the Company were also arranged.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate.

During the Year, the Company organized one training session conducted by the qualified professionals for all the Directors. Such training session covered a wide range of relevant topics including directors' duties and responsibilities, risk management and internal controls etc. In addition, relevant reading materials including directors' manual, legal and regulatory updates and seminar handouts have been provided to the Directors for their reference and studying.

All Directors are encouraged to attend relevant training courses at the Company's expense. The company secretary is responsible for keeping records of training taken by each Director.

The individual training record of each Director received during the year ended 31 December 2022 is set out below:

Name of Director	Reading materials relevant to corporate governance and director's duties	Attending training session(s) relevant to corporate governance and director's duties
Executive Directors		
Mr. Luk Wing Ming *(Chairman)*	Y	Y
Mr. Chan Cheung Ngai	Y	Y
Mr. Chan Ming	Y	Y
Mr. Ng Ming Chee	Y	Y
Independent Non-executive Directors		
Mr. Jiang Yongwei	Y	Y
Mr. Yu Hong	Y	Y
Mr. Tsui Yung Kwok	Y	Y

BOARD OF DIRECTORS (CONTINUED)

Board Meetings and Directors' Attendance Records

Code provision C.5.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

Four Board meetings and one annual general meeting of the Company (the "**AGM**") were held during the Year. The attendance of each Director at the Board meetings and the AGM is as follows:

Name of Directors	Attendance/ Number of Board Meetings	Attendance/ Number of General Meeting(s)	Attendance rate
Mr. Luk Wing Ming	4/4	1/1	100%
Mr. Chan Cheung Ngai	4/4	1/1	100%
Mr. Chan Ming	4/4	1/1	100%
Mr. Ng Ming Chee	4/4	1/1	100%
Mr. Jiang Yongwei	4/4	1/1	100%
Mr. Yu Hong	4/4	1/1	100%
Mr. Tsui Yung Kwok	4/4	1/1	100%

BOARD OF DIRECTORS (CONTINUED)

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

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

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

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on such matters;

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

(f) to review and monitor the Company's compliance with the Company's whistleblowing policy.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The majority of the members of the Remuneration Committee, Audit Committee and Nomination Committee are independent non-executive Directors.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Jiang Yongwei, Mr. Yu Hong and Mr. Tsui Yung Kwok, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal controls system of the Group, assist the Board to fulfill its responsibility over the audit, and review and approve connected transactions and to advise the Board.

The Audit Committee is also responsible for performing the functions set out in code provision D.3.3 of the CG Code. These include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management of the Company; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and reviewing the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual report.

The Audit Committee held two meetings during the Year to review and consider, in respect of the year ended 31 December 2022, the interim and annual financial results and reports, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor.

The Audit Committee also met the external auditors twice during the Year without the presence of the executive Directors and the management.

BOARD COMMITTEES (CONTINUED)

Audit Committee (Continued)

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance/ Number of Meeting(s)
Mr. Tsui Yung Kwok *(Chairman)*	2/2
Mr. Jiang Yongwei	2/2
Mr. Yu Hong	2/2

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code. The Remuneration Committee consists of three members, namely Mr. Jiang Yongwei, Mr. Yu Hong and Mr. Chan Cheung Ngai (appointed on 21 January 2022). Mr. Jiang Yongwei is the chairman of the committee. The majority of the Remuneration Committee members are independent non-executive Directors.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management, to assess the performance of executive directors, to approve the terms of executive directors' service contracts, as well as to review and/or approve matters relating to share schemes under chapter 17 of the Listing Rules.

The Remuneration Committee held one meeting during the Year. The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance/ Number of Meeting(s)
Mr. Jiang Yongwei *(Chairman)*	1/1
Mr. Yu Hong	1/1
Mr. Chan Cheung Ngai(1)	1/1

(1) Mr. Luk Wing Ming resigned as the member of the Remuneration Committee on 21 January 2022. On the same day, Mr. Chan Cheung Ngai was appointed as a member of the Remuneration Committee.

During the meeting, the Remuneration Committee reviewed the remuneration policy and structure of the Company, the remuneration packages of the executive Directors and senior management and other related matters of the Company.

BOARD COMMITTEES (CONTINUED)

Remuneration Committee (Continued)

Pursuant to code provision E.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended 31 December 2022 is as follows:

Remuneration Band	Number of employee(s)
RMB2,000,001 to RMB3,000,000	3

Details of the Directors' remuneration are set out in note 8 to the consolidated financial statements in this annual report.

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Luk Wing Ming (appointed on 21 January 2022), Mr. Jiang Yongwei and Mr. Tsui Yung Kwok. Mr. Luk Wing Ming is the chairman of the committee since 21 January 2022. The majority of the Nomination Committee members are independent non-executive Directors.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Nomination Committee are to make recommendations to our Board regarding the appointment of Directors and Board succession.

The Board has adopted a board diversity policy on 1 January 2019 (the "**Board Diversity Policy**"). A summary of the Board Diversity Policy is set out below:

Purpose:	The Board Diversity Policy aims to set out the approach to achieve diversity in the Company's Board.
Board Diversity Policy statement:	With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, the Nomination committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and all Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. All appointments are based on the principle of merit-based appointment and comprehensive consideration of objective conditions, so as to select leading talents with both ability and virtue.
Measurable Objectives:	Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

BOARD COMMITTEES (CONTINUED)

Nomination Committee (Continued)

The Board has set a target of appointing one female member by 31 December 2024. For this target, the Nomination Committee is obliged to propose appointment of female director by that time and the Company could provide services of a human resource consulting firm if required. The Board will perform annual review of Board Diversity Policy for ensuring its constant effectiveness, monitor the implementation of Board Diversity Policy and report its details in the Corporate Governance Report annually.

In respect of employee diversity policy, as of 31 December 2022, the gender ratio of employees of the Group is male (70%) and female (30%), and the employee composition is as follows:

Rank	Number of male employees	Number of female employees
Senior Management	2	1
Middle management and general staff	949	407

The gender distribution of the Group's employees reflects characteristics of the nature of the business and area of specialization of the Group as a provider of automotive electronics solutions. The Board will continue to strive to enhance female representation and achieve and maintain an appropriate balance of gender diversity in its workforce.

The Nomination Committee has adopted a nomination policy which sets out a set of nomination procedures and selection criteria for Directors.

A summary of board nomination policy and related nomination procedures is set out as follows:

Director Selection Criteria

In the determination of the suitability of a candidate, the Nomination Committee will consider a range of factors, including but not limited to the following selection criteria, before making recommendations to the Board:

a) character and integrity;

b) business experience relevant and beneficial to the Company;

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

d) willingness to devote adequate time to discharge duties as a member of the Board and other significant commitments;

e) present needs of the Board for particular expertise, skills or experience and whether the candidates would satisfy those needs;

f) for independent directors, whether the candidates for independent directors would be considered independent with reference to the independence guidelines set out in the Listing Rules; and

g) the Company's prevailing board diversity policy, and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board.

BOARD COMMITTEES (CONTINUED)

Nomination Committee (Continued)

A summary of nomination procedure by the Nomination Committee is set out as follows:

Nomination Procedure by Nomination Committee	The Nomination Committee will have a meeting at least once a year, and candidates, if any, will be identified for consideration. Where a retiring director, being eligible, offers himself/herself for re-election, the Nomination Committee will review the overall contribution to the Company of the retiring director and will also determine whether the retiring director continues to meet the selection criteria as set out in the nomination policy. The Nomination Committee will assess the eligibility of a candidate to become a director of the Company taking into account the director selection criteria as set out in the nomination policy, and make recommendations for the Board's consideration and approval. The Board will consider and approve the appointment, if appropriate, based upon the recommendation of the Nomination Committee.

The Nomination Committee held one meeting during the Year.

Subject to the provisions in the memorandum and articles of association of the Company and the Listing Rules, The nomination procedures and the process and criteria to select and recommend candidates for directorship are as follow:

(a) the Nomination Committee identifies potential candidates based on the criteria as set out above;

(b) the Nomination Committee or the Company Secretary provides the Board with the biographical details and details of the relationship between the candidate and the Company or Directors, directorships held, skills and experience, other positions which involve significant time commitment and any other particulars required by the Listing Rules, the Companies Law of the Cayman Islands and other regulatory requirements for any candidate for appointment to the Board;

(c) The Nomination Committee would make recommendation on the proposed candidate(s) and the terms and conditions of the appointment to the Board;

(d) The Nomination Committee should ensure the proposed candidate(s) will enhance the diversity of the Board, being particularly mindful of gender balance;

(e) In the case of the appointment of an independent non-executive Director, the Nomination Committee and/or the Board obtains all information in relation to the proposed Director to allow the Board to adequately assess the independence of the Director in accordance with the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time;

(f) The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee.

BOARD COMMITTEES (CONTINUED)

Nomination Committee (Continued)

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance/ Number of Meeting(s)
Mr. Luk Wing Ming *(Chairman)*[1]	1/1
Mr. Jiang Yongwei	1/1
Mr. Tsui Yung Kwok	1/1

(1) Mr. Chan Cheung Ngai resigned as the chairman of the Nomination Committee on 21 January 2022. On the same day, Mr. Luk Wing Ming was appointed as the chairman of the Nomination Committee.

During the meeting, the Nomination Committee discussed and made recommendation to the Board on the assessment of the independence of the independent non-executive Directors, considered the re-election of Directors and reviewed the structure, size, composition and diversity of the Board.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

During the Year, the Audit Committee, through the engagement of AVISTA PRO-WIS Risk Advisory Limited (the "AVISTA"), an independent internal control consultant, reviewed the adequacy and effectiveness of the Group's system of risks management and internal controls including financial, operational, compliance, risk management policies and systems established by the Company.

Risk management

The Group has conducted formal risk assessment by the management to identify and assess enterprise risks (including environmental, social and governance risks) with reference to the Group's business objectives and strategies. A risk assessment based on the Group's risk model has been conducted through interviews with senior management of the Group, together with reviews of existing risk mitigation measures and follow-up interviews as necessary, to facilitate the assessment. Action plans have been developed to further enhance the risk management capabilities of particular key risks as appropriate.

RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

Internal control

The Group ensures internal controls are designed and implemented in all major aspects of the Group's operations and details of internal control activities are included in the operating policies and procedures of the Group. Based on the procedures performed by the AVISTA and internal audit function, no significant deficiencies were identified and improvement opportunities associated with R&D, inventory procurement management processes and IT management had been submitted to the Audit Committee for considerations.

The Audit Committee also reported such findings and recommendations to the Board for the improvement of the risk management and internal control systems of the Group and the Board considered that all recommendations should be properly followed to ensure that the sound and effectiveness of the risk and internal control systems of the Group can be maintained.

Internal audit function

The Group has established an internal audit function assisting the Board in maintaining an effective risk management and internal control systems by evaluating its effectiveness and efficiency and by promoting continuous improvement. The internal audit function of the Group reports directly to the Audit Committee regularly and has access to the chairman of the Audit Committee if appropriate.

In addition, the Board had received confirmation from the management that:

- the financial records have been properly maintained and the financial statements give a true and fair view of the operations and finances of the Group; and

- the risk management and internal control systems of the Group are effective.

Based on the framework for risk management and internal control system established by the Group, the procedures performed by the AVISTA and internal audit function, the Board is of the opinion that the Group's risk management and internal control systems are effective and adequate and that nothing has come to its attention to cause the Board to believe the Group's risk management and internal control systems are inadequate for the year ended 31 December 2022.

Such assessment of risk management and internal control systems will be conducted annually.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2022 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 65 to 70 of this annual report.

DIVIDEND POLICY

The Company has adopted a dividend policy on 1 January 2019 which is in accordance with the relevant provisions of the Articles of Association. Pursuant to the dividend policy, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board. No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. The Board may also pay half-yearly or at other suitable intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the financial conditions and the profits available for distribution justify the payment. The Board may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of the Company as it thinks fit. Any dividend unclaimed shall be forfeited and shall be returned to the Company in accordance with the Articles of Association and all applicable laws and regulations.

The Board will review the dividend policy from time to time and may adopt changes as appropriate at the relevant time.

AUDITORS’ REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2022 is set out below:

Service Category	**Fees Paid/Payable** RMB’000
Audit Services	3,184
Non-audit Services	–
TOTAL	3,184

COMPANY SECRETARY

As at the date of this annual report, Mr. Ng Ming Chee is the company secretary of the Company.

For the year ended 31 December 2022, Mr. Ng Ming Chee confirmed that he had attended sufficient professional training as required in accordance with Rule 3.29 of the Listing Rules during the Year.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to Article 58 of the Articles of Association, extraordinary general meetings shall also be convened on the written requisition of one or more members deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a Director, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director" of the Company which is posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

SHAREHOLDERS' RIGHTS (CONTINUED)

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Unit 1008-10, 10/F Delta House 3 On Yiu Street, Shatin New Territories, Hong Kong (For the attention of the Investor Relations Department)
Fax:	+ 852 3580 1876
Email:	ir@intron-tech.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on- going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Company maintains a website at www.intron-tech.com as a communication platform with Shareholders and investors, where the financial information and other relevant information of the Company are available for public access.

The Company reviewed the implementation and effectiveness of the shareholders' communication policy and considered it to be effective for the year ended 31 December 2022.

CONSTITUTIONAL DOCUMENTS

On 30 March 2022, the Board has proposed the amendments to the Articles of Association (the "**Proposed Amendments**") in order to, among others, (i) conform to the Core Shareholder Protection Standards as set out in Appendix 3 to the Listing Rules and the applicable laws of the Cayman Islands; and (ii) make other housekeeping amendments. A special resolution has been passed at the AGM held on 30 May 2022 to adopt the Proposed Amendments. A copy of the Second Amended and Restated Memorandum and Articles of Association of the Company has been posted on the designated website of the Stock Exchange and the website of the Company.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Luk Wing Ming (陸穎鳴), aged 53, is a co-founder and an executive director. Mr. Luk is also our Chairman and co- CEO responsible for our strategic development and business operations. Mr. Luk also holds positions in other members of our Group: he is a director of Shanghai Intron Electronics Company Limited (the "**Shanghai Intron**"), Intron Technology (China) Limited and Evertronics Technology (China) Company Limited; a supervisor of Shanghai G-Pulse Electronics Technology Company Limited, and Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited; and the executive director of Intron Intelligent Technology (Shanghai) Limited.

Mr. Luk has over 25 years of working experience including over 20 years of experience in automotive electronics. Prior to our founding in 2001, Mr. Luk worked in Array Electronics (China) Ltd., a semiconductor distributor, from February 1996 to January 2001. He was initially a sales executive and was then promoted to strategic marketing manager. Mr. Luk graduated with a Master of Business Administration from China Europe International Business School, the PRC and a Bachelor of Engineering in materials engineering from Shanghai Jiaotong University, the PRC.

Mr. Chan Cheung Ngai (陳長藝), aged 50, is a co-founder and an executive director. Mr. Chan is also our co-CEO responsible our overall strategic planning and business development. Mr. Chan also holds positions in other members of our Group: he is the executive director of Shanghai G-Pulse Electronics Technology Company Limited and Shanghai G-pulse Automotive Electronics Company Limited; a director of Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited and Intron Technology (China) Limited and a supervisor of Intron Intelligent Technology (Shanghai) Company Limited. Since the early stage of our Group's development, Mr. Chan has been involved in the product design process and has been named as an inventor in a number of our patents, including the patent for an electric control board of machine oil pressure sensor of engine (patent number: ZL 03 2 55715.9) and an automobile instrument comprehensive checking device (patent number: ZL 2009 2 0209166.9). As an executive director of Shanghai G-Pulse Electronics Technology Company Limited, Mr. Chan also oversees its research and development function.

Since the establishment of our Group, we have taken a number of key strategic directions under Mr. Chan's vision to develop our Group into a leading player in the industry focused on providing high-quality engineering services to customers. Under Mr. Chan's leadership, we first set up a dedicated engineering function to develop automotive electronics solutions for OEMs, and we have since then significantly expanded our research and development capabilities, established relationships with key business partners, and shifted our focus to areas such as new energy which has exhibited rapid growth.

Mr. Chan has over 25 years of working experience including over 20 years of experience in automotive electronics. Prior to setting up our Group in 2001, Mr. Chan had about seven years of experience in sales with Array Electronics Limited, a company engaged in distribution of electronic devices. Mr. Chan joined Array Electronics Limited in March 1994 as a sales engineer and was promoted to his last position as a sales manager in 1998. In the same year, Mr. Chan was transferred to Array Electronics (China) Limited to work in the Shanghai office of Array Electronics Limited.

Mr. Chan Ming (陳銘), aged 53, is our general manager and an executive Director, and is responsible for marketing and business development of our Group. Mr. Chan graduated with a Bachelor of Engineering (majoring in Electronic and Electrical Engineering) from the University of Birmingham, the United Kingdom in 1992. Mr. Chan also obtained a Master of Business Administration from the University of Wales, the United Kingdom in 1994. Mr. Chan has more than 20 years of experience in electronic components industry. Mr. Chan's career began as a sales engineer for Array Electronics Limited where he worked from 1993 to 1994. Prior to joining our Group in 2005, Mr. Chan worked with DMX Technologies (Hong Kong) Limited, a networks solutions provider, from 2001 to 2004 as senior regional sales manager.

Since joining our Group, Mr. Chan has been overseeing our team responsible for developing our relationships with suppliers and customers, including domestic automotive OEMs in the PRC and their Tier 1 suppliers. Mr. Chan also manages our team of field application engineers.

Mr. Ng Ming Chee (黃晞華), aged 57, is our chief financial officer, executive Director and company secretary (since 17 February 2021). Mr. Ng is responsible for financial and public relations matters of our Group.

Mr. Ng graduated with a Bachelor of Commerce from the University of Western Australia in 1987 and a Master of Business Administration from the Henley Management College/Brunel University in the United Kingdom in 2003. Mr. Ng was admitted as a Certified Practising Accountant from the Australian Society of Certified Practising Accountants in November 1995, and as a Certified Public Accountant from the Hong Kong Institute of Certified Public Accounts in July 2018.

Prior to joining our Group, Mr. Ng had over 30 years of experience in finance. He has worked as chief financial officer, finance director or finance controller for multiple corporations spanning different industries, including film production company Shanghai Oriental DreamWorks Culture Media Co., Ltd. (December 2014 to October 2016), technology solutions provider Telstra (August 2013 to December 2014), credit services provider Fullerton Investment & Credit Guarantee Co., Ltd. (September 2010 to August 2013), orthopaedic products manufacturer Trauson Holdings Company Limited (November 2009 to September 2010), sports promotion company NBA Sports and Culture Development (Beijing) Co., Ltd. (November 2008 to April 2009), subsidiaries of advertising company Publicis Groupe (July 2004 to November 2008), and computer components manufacturer Intel China Ltd. (April 2001 to March 2003). Mr. Ng's career began as a consultant for Coopers & Lybrand Management Consultants Pte Ltd, a provider of accounting and consultancy services, where he worked from May 1990 to May 1993. Until 2001, Mr. Ng worked as financial managers/controller of various fast-moving consumer goods manufacturers.

Mr. Ng has served as an independent non-executive director of Meihao Medical Group Co., Ltd (stock code: 1947) since November 2022, the shares of which are listed on the Hong Kong Stock Exchange.

Independent non-executive Directors

Mr. Jiang Yongwei (江永瑋), aged 52, currently is an independent non-executive Director of the Company. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee.

Mr. Jiang graduated with a Bachelor in Metallurgy Engineering from Shanghai Jiaotong University, the PRC in 1992.

Mr. Jiang has over 20 years of experience in the automotive industry. He had been working for automotive technology solutions provider Faurecia Emission Control Technologies Development (Shanghai) Co., Ltd., where he held various positions including China division president (October 2015 to July 2020), China division operations director (February to October 2015), and the general manager of the Wuhan plant (October 2013 to January 2015). From 2012 to 2013, Mr. Jiang worked as the general manager of Dongfeng GEFCO, a provider of logistics services for the automotive industry. From 1992 to 1994, he worked as a research and development engineer for Dongfeng Motors.

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Mr. Yu Hong (余宏), aged 69, currently is an independent non-executive Director of the Company. He is a member of each of the Audit Committee and the Remuneration Committee.

Mr. Yu graduated with a Master of Business Administration from Shanghai University of Finance and Economics, the PRC in 2001. In 1984, Mr. Yu had completed a Finance course in the Shanghai College of Finance and Economics. Mr. Yu was certified as a senior economist in December 1994 by Industrial and Commercial Bank of China (Main Branch). Mr. Yu also passed the Licensing Examination for Securities and Futures Intermediaries held by the Hong Kong Securities Institute in July and September 2011. Mr. Yu has over 30 years of experience in the banking sector. He held senior management positions in various financial institutions, including as vice chairman of the board of directors of investment management company Shanghai Right Capital Co., Ltd. (August 2014 to April 2018), deputy chief executive officer and executive director of ICBC International Holdings Limited (Hong Kong) (January 2010 to February 2013), executive director and chief executive officer of Seng Heng Bank Limited (Macao) (January 2008 to October 2009), chief executive of Fortis Bank Asia HK (Hong Kong Branch) (May 2004 to October 2005), and general manager of Industrial and Commercial Bank of China Limited Tokyo Branch (November 1997 to June 2000). From February 1979 to October 1984, Mr. Yu worked as the Luwan District deputy director of People's Bank of China (Shanghai). From October 1984 to December 1996, he worked for Industrial and Commercial Bank of China Limited (Shanghai Branch) and held various positions including section chief, deputy chief manager, and chief manager.

Mr. Tsui Yung Kwok (徐容國), aged 54, currently is an independent non-executive Director of the Company. He is the chairman of the Audit Committee and a member of the Nomination Committee.

Mr. Tsui graduated with a Bachelor of Business majoring in Accounting from the Curtin University of Technology in Australia in 1992 and a Master of Corporate Governance from the Hong Kong Polytechnic University in 2007.

Mr. Tsui has over 25 years of experience in the accounting and finance field. His career began as an audit accountant for Kwan Wong Tan & Fong BDO (now known as Deloitte) (December 1992 to February 1994). From February 1994 to October 2003, he worked for Ernst & Young, where his latest position was senior manager. Since November 2003, he has worked as chief financial officer and company secretary for companies listed on the Hong Kong Stock Exchange. From November 2003 to August 2004, Mr. Tsui was the chief financial officer and company secretary of Qin Jia Yuan Media Services Company Limited (stock code: 2366). From August 2004 to present, Mr. Tsui has been an executive director, chief financial officer, and company secretary (up to 1 March 2017) of Ju Teng International Holdings Limited (stock code: 3336).

Mr. Tsui has also served as an independent non-executive director of Shenguan Holdings (Group) Limited (stock code: 829), and Cabbeen Fashion Limited (stock code: 2030) since September 2009, and February 2013 respectively, the shares of which are all listed on the Hong Kong Stock Exchange. He was also appointed as an independent non-executive director of SITC International Holdings Company Limited (stock code:1308), from September 2010 to December 2020, the shares of which are all listed on the Hong Kong Stock Exchange.

Mr. Tsui is a member of the Chartered Accountants Australia and New Zealand, CPA Australia, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

SENIOR MANAGEMENT

Mr. Zhu Xinping (朱欣平), aged 45, is the deputy general manager of Shanghai Intron. He started working as a sales engineer in February 2002 and was promoted to his current capacity in 2014. Mr. Zhu is also the legal representative of Shanghai Intron.

Mr. Zhu graduated with a Bachelor of Electronics and Information System from Fudan University in the PRC in 2000.

Mr. Qin Chen (秦晨), aged 45, is the director of R&D department of Shanghai Intron. He joined the Group in September 2002 as an R&D engineer, working on automotive embedded system development. He was promoted to his current position in September 2008. Mr. Qin is also the general manager of Intron Technology Intelligent (Shanghai) Limited and the supervisor of Shanghai G-pulse Automotive Electronics Company Limited.

Mr. Qin graduated with a Bachelor of Electrical Engineering from Hefei University of Technology in the PRC in 1999.

Upon graduation and prior to joining our Group, Mr. Qin worked in China Electronics Technology Group Corporation (CETC) No. 21 Research institute, an electronics technology developer, as an assistant engineer from July 1999 to March 2002.

COMPANY SECRETARY

Mr. Ng Ming Chee (黃晞華), our chief financial officer and executive Director, was appointed as the company secretary of the Company on 17 February 2021. For the biographical details of Mr. Ng, please see the section headed “Executive Directors” above.

REPORT OF DIRECTORS

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company, together with its subsidiaries, is a fast-growing automotive electronics solutions provider in China. We focus on providing solutions targeting critical automotive electronic components applied in new energy, body control, safety and powertrain systems.

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in note 1 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group during the year and a discussion and analysis on the Group's future business development are set out in the sections headed "Management Discussion and Analysis" on pages 7 to 18 of this annual report.

Environmental Policies and Performance

The Group is not subject to any significant health, safety or environmental risks. We do not operate any production facilities or transportation, as we engage third parties to transport our solution products. The Group has taken measures to promote environmental-friendliness of the workplace by encouraging paper recycling culture, water conservation measures and energy-saving culture within the Group to reduce the impact of operations on the environment and natural resources.

To the best knowledge of the Group, during the year ended 31 December 2022, the Group has complied with the relevant environmental and occupational health and safety laws and regulations and we did not have any incidents or complaints which had a material and adverse effect on our business, financial condition or results of operations during the Reporting Period.

Compliance with Relevant Laws and Regulations

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Year, there was no material breach of or non- compliance with the applicable laws and regulations by the Group.

BUSINESS REVIEW (CONTINUED)

Key Relationship with Stakeholders

The Group recognizes that various stakeholders include employees, customers, suppliers and shareholders. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

The remuneration of employees of the Group will be based on their performance, experience and the prevailing market remuneration. The total remuneration of employees includes basic salaries and discretionary bonus. Moreover, the Group has also adopted a share option scheme. The remuneration policy of the Directors is reviewed and determined by the remuneration committee having regard to the Directors' experience, responsibilities, workload and time devoted to the Group and performance of the Group.

The Group's principal customers mainly include OEMs and their suppliers in the automotive industry. Our marketing efforts are focused on locating the nexus between our solution offerings and technical capabilities on one hand, and our business partners' development direction on the other. We have established a long-term relationship with our major customers and focus on identify and understand their requirements as demand for a particular product feature arises.

Our suppliers include manufacturers and distributors of semiconductor devices. We also engage contract manufacturers to assemble electronic components which we deliver to our customers as part of our solutions package. Good relationship with suppliers constitutes one of the essential elements of the Group's success. In order to ensure the quality of supplies which would enhance consistency in our product qualities, we have a strict system for selecting our suppliers.

The principal goal of the Group is to maximize the return to the shareholders of the Company. The Group will focus on our core business for achieving sustainable profit growth and rewarding the shareholders with dividend payouts taking into account the business development needs and financial health of the Group.

During the year under review, there were no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

BUSINESS REVIEW (CONTINUED)

Key Risks and Uncertainties and Risk Management

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. The Board is aware that the Group is exposed to various risks and the principal risks and uncertainties are summarized below:

Our results of operations are heavily dependent on the condition of the PRC automotive industry. Any events that have an adverse effect on the demand of our customers' products could materially and adversely affect the demand for our solutions, which in turn affects our business, financial conditions and results of operations.

Our growth is dependent on our continuing ability to retain and attract qualified research and development professional personnel. Failure to retain and attract appropriate qualified professional personnel may adversely affect our business and prospects.

We are exposed to foreign exchange risks primarily because we purchase imported semiconductor devices from overseas suppliers in foreign currency such as US dollars and Euros while we generate a majority of revenue in Renminbi. Future movements in the exchange rate of the Renminbi may adversely affect our financial condition and results of operations.

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure arising internally and externally from the Group's business, including operational risks, financial risks, regulatory risks, etc. and proactively setting up appropriate risk management and internal control mechanism which is embedded in daily operation management.

RESULTS AND DIVIDENDS

The results of the Group for the Reporting Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 71 to 72 of this annual report. The Board resolved to propose to the Shareholders in the forthcoming AGM on Monday, 29 May 2023 for the distribution of a final dividend of HK cents: 13.1 per share for the year ended 31 December 2022. The proposed final dividend is expected to be paid on or about Monday, 3 July 2023 to the Shareholders whose names are listed in the register of members of the Company on Friday, 9 June 2023. The actual total amount of final dividends to be paid will be subject to the total issued share capital of the Company as at the record date for determining the entitlement of Shareholders to the final dividend. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

DIRECTORS

The Directors during the Reporting Period and up to the date of this Directors' Report were:

Executive Directors

Mr. Luk Wing Ming *(Chairman and co-Chief Executive Officer)*
Mr. Chan Cheung Ngai *(Co-Chief Executive Officer)*
Mr. Chan Ming
Mr. Ng Ming Chee

Independent non-executive Directors

Mr. Jiang Yongwei
Mr. Yu Hong
Mr. Tsui Yung Kwok

Biographies of the Directors and Senior Management

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 42 to 45 of this annual report.

Service Contracts of the Directors

Each of the executive Directors has entered into a contract with the Company dated 23 June 2018 which was effective from their respective appointment dates, is subject to termination before expiry by either party giving not less than three months' notice in writing to the other. Each of the independent non-executive Directors has entered into a letter of appointment with the Company dated 23 June 2018 which commenced from their respective appointment dates and shall be terminable by either party giving not less than three months' notice in writing to the other.

All Directors are subject to retirement by rotation and re-election at annual general meeting, and will continue thereafter until terminated in accordance with the terms of the service agreement/letter of appointment.

In accordance with the Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS (CONTINUED)

Service Contracts of the Directors (Continued)

In accordance with the Article 84(1) of the Articles of Association, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

Accordingly, Mr. Chan Cheung Ngai, Mr. Ng Ming Chee and Mr. Tsui Yung Kwok shall retire from office at the forthcoming AGM to be held on Monday, 29 May 2023. All of the retired directors, being eligible, offer themselves for re-election, at the AGM.

Remuneration of the Directors and Five Highest Paid Individuals

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in note 8 and 9 to the consolidated financial statements in this annual report.

Employees and Remuneration Policies

A review of the employees and remuneration policies of the Group during the Year are set out in the section headed "Management Discussion and Analysis — Employees and Remuneration Policies" on pages 24 of this annual report.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

NON-COMPETE UNDERTAKING

Mr. Luk Wing Ming and Mr. Chan Cheung Ngai hold their interests in the Company together through Magnate Era Limited (the "**Magnate Era**") and Zenith Benefit Investments Limited (the "**Zenith Benefit**") as well as individually through Treasure Map Ventures Limited (the "**Treasure Map**") and Heroic Mind Limited (the "**Heroic Mind**"), respectively. Therefore, Mr. Luk, Mr. Chan, Magnate Era, Zenith Benefit, Treasure Map and Heroic Mind are considered to be a group of controlling shareholders (as defined under the Listing Rules) (the "**Controlling Shareholders**"). The Controlling Shareholders had entered into a deed of non-competition in favour of the Company on 22 June 2018 (the "**Deed of Non-competition**"). The Controlling Shareholders have confirmed in writing to the Company that they all have complied with the undertakings under the Deed of Non-competition during the period from the date of the Deed of Non-competition until 31 December 2022.

NON-COMPETE UNDERTAKING (CONTINUED)

The independent non-executive Directors have also reviewed such confirmations on the undertakings of the Deed of Non- competition by the Controlling Shareholders during the period from the date of the Deed of Non-competition until 31 December 2022 and confirmed that there was no breach of undertakings in the Deed of Non-competition by the Controlling Shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed in this annual report, as at 31 December 2022, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in note 37 to the consolidated financial statements headed "Related Party Transactions", no Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party as at 31 December 2022 or at any time during the year ended 31 December 2022.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year ended 31 December 2022 are set out in note 37 to the consolidated financial statements. None of the related party transactions constituted connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS (CONTINUED)

(a) Long position in the ordinary Shares

Name of Shareholder	Nature of Interest	Number of Shares held[1]	Approximate shareholding percentage (%)
Luk Wing Ming ("**Mr. Luk**")[2]	Interest of controlled corporations	642,970,000 (L)	59.15%
Chan Cheung Ngai ("**Mr. Chan**")[3]	Interest of controlled corporations	642,970,000 (L)	59.15%
Zhang Dan[4]	Interest of spouse	642,970,000 (L)	59.15%
Zhang Hui[5]	Interest of spouse	642,970,000 (L)	59.15%
Chan Ming	Beneficiary	3,000,000 (L)	0.28%
Ng Ming Chee	Beneficiary	2,100,000 (L)	0.19%
Yu Hong	Beneficiary	25,000 (L)	0.002%

Notes:

1. The letter "L" denotes long position of the Shares.

2. Mr. Luk owned 50.0% shareholding interest in Magnate Era, 50.0% shareholding interest in Zenith Benefit and 100.0% shareholding interest in Treasure Map (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 642,970,000 Shares directly held by the aforesaid three holding companies.

3. Mr. Chan owned 50.0% shareholding interest in Magnate Era, 50.0% shareholding interest in Zenith Benefit and 100.0% shareholding interest in Heroic Mind (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 642,970,000 Shares directly held by the aforesaid three holding companies.

4. Ms. Zhang Dan is the spouse of Mr. Luk. Under the SFO, Ms. Zhang Dan is deemed to be interested in the entirely of the 642,970,000 Shares in which Mr. Luk is interested.

5. Ms. Zhang Hui is the spouse of Mr. Chan. Under the SFO, Ms. Zhang Hui is deemed to be interested in the entirely of the 642,970,000 Shares in which Mr. Chan is interested.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS (CONTINUED)

(b) Long position in underlying Shares – share options

The following directors of the Company have personal interests in options to subscribe for the Shares:

			Number of share options						
Name	Date of grant	Exercisable period	Balance as at 1 January 2022	Granted during the Year	Exercised during the Year	Lapsed/ forfeited during the Year	Cancelled during the Year	Balance as at 31 December 2022	Exercise price per share HK$
Chan Ming	21 January 2019	1 January 2020 to 31 December 2025	1,550,000	–	–	–	–	1,550,000	2.662
	18 May 2021	1 June 2022 to 31 May 2028	200,000		–	–	–	200,000	4.25
Ng Ming Chee	21 January 2019	1 January 2020 to 31 December 2025	1,500,000	–	–	–	–	1,500,000	2.662
	18 May 2021	1 June 2022 to 31 May 2028	160,000		–	–	–	160,000	4.25
Jiang Yongwei	21 January 2019	1 January 2020 to 31 December 2025	50,000	–	–	–	–	50,000	2.662
	18 May 2021	1 June 2022 to 31 May 2028	40,000		–	–	–	40,000	4.25
Tsui Yung Kwok	21 January 2019	1 January 2020 to 31 December 2025	50,000	–	–	–	–	50,000	2.662
	18 May 2021	1 June 2022 to 31 May 2028	40,000		–	–	–	40,000	4.25
Yu Hong	21 January 2019	1 January 2020 to 31 December 2025	50,000	–	25,000	–	–	25,000	2.662
	18 May 2021	1 June 2022 to 31 May 2028	40,000		–	–	–	40,000	4.25

Save as disclosed above, as at 31 December 2022, none of the Directors or the chief executives of the Company or any of their respective associates had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 22 June 2018 (the "**Scheme**") for the purpose of recognizing and acknowledging the contributions of certain eligible participants had or may have made to the Group whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years from the date of its adoption, and it has a remaining life of approximately five years and three months.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors or proposed director (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; any direct or indirect shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at 12 July 2018 (the date on which the Shares were listed on the Main Board of the Stock Exchange), i.e. 100,000,000 shares of the Company representing approximately 9.20% of the issued share capital of the Company as at the date of this annual report. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the shareholders of the Company in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

SHARE OPTION SCHEME (CONTINUED)

The maximum number of Shares issuable upon the exercise of options granted under the Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) to each eligible participant within any 12-month period, is limited to 1% of the Shares in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company; and

(ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The exercise period of the share options granted is determined by the Directors, which period may commence on the date of the offer of the share options, and end on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Scheme shall pay HK$1.00 to the Company by way of consideration for the grant.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of:

(i) the closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day;

(ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and

(iii) the nominal value of a share.

SHARE OPTION SCHEME (CONTINUED)

The details of the exercise price and number of options outstanding during the year ended 31 December 2022 which have been granted to, exercised and cancelled by the eligible participants are as follows:

			Number of share options						
Category	Date of grant	Exercisable period	Balance as at 1 January 2022	Granted during the year[11]	Exercised during the year	Lapsed/ forfeited during the year	Cancelled during the year	Balance as at 31 December 2022	Exercise price per share HK$
Executive directors[9]	21 January 2019[1]	1 January 2020 to 31 December 2025[2]	3,050,000	–	–	–	–	3,050,000	2.662
	18 May 2021[5]	1 June 2022 to 31 May 2028[6]	360,000	–	–	–	–	360,000	4.25
Independent non-executive directors[9]	21 January 2019[1]	1 January 2020 to 31 December 2025[2]	150,000	–	25,000	–	–	125,000	2.662
	18 May 2021[5]	1 June 2022 to 31 May 2028[6]	120,000	–	–	–	–	120,000	4.25
Employees	21 January 2019[1]	1 January 2020 to 31 December 2025[2]	21,341,300	–	1,889,500	86,250	172,500	19,193,050	2.662
	30 September 2020[3]	1 October 2021 to 30 September 2027[4]	3,600,000	–	200,000	75,000	–	3,325,000	2.810
	18 May 2021[5]	1 June 2022 to 31 May 2028[6]	22,120,000	–	225,000	340,000	470,000	21,085,000	4.25
	25 November 2022[7]	1 December 2023 to 30 May 2029[8]	–	13,020,000	–	–	–	13,020,000	4.324
Total			50,741,300	13,020,000	2,339,500	501,250	642,500	60,278,050	

Notes:

1. The closing prices of the shares of the Company immediately before the grant of share options on 21 January 2019 was HK$2.66.

2. The granted options shall be vested to the grantees in accordance with the vesting schedule as follows: (i) as to 25% of the total number of Granted Options on 1 January 2020; (ii) as to 25% of the total number of Granted Options on 1 January 2021; (iii) as to 25% of the total number of Granted Options on 1 January 2022; and (iv) as to 25% of the total number of Granted Options on 1 January 2023. Once vested, the share options shall be exercisable on a cumulative basis.

3. The closing prices of the shares of the Company immediately before the grant of share options on 30 September 2020 was HK$2.81.

SHARE OPTION SCHEME (CONTINUED)

Notes: (Continued)

4. The Granted Options shall be vested to the grantees in accordance with the vesting schedule as follows: (i) as to 25% of the total number of Granted Options on 1 October 2021; (ii) as to 25% of the total number of Granted Options on 1 October 2022; (iii) as to 25% of the total number of Granted Options on 1 October 2023; and (iv) as to 25% of the total number of Granted Options on 1 October 2024. Once vested, the share options shall be exercisable on a cumulative basis.

5. The closing prices of the Shares immediately before the grant of share options on 18 May 2021 was HK$4.25.

6. The Granted Options shall be vested to the grantees in accordance with the vesting schedule as follows: (i) as to 25% of the total number of Granted Options on 1 June 2022; (ii) as to 25% of the total number of Granted Options on 1 June 2023; (iii) as to 25% of the total number of Granted Options on 1 June 2024; and (iv) as to 25% of the total number of Granted Options on 1 June 2025. Once vested, the Granted Options shall be exercisable on a cumulative basis.

7. The closing prices of the Shares immediately before the grant of share options on 25 November 2022 was HK$4.25 and the fair value of the share options at the date of grant was HK$1.98 per share, amounting to approximately HK$25.8 million in total. Please refer to Note 31 to the Financial Statements for the accounting standard and policy adopted in respect of the fair value of share options.

8. The Granted Options shall be vested to the grantees in accordance with the vesting schedule as follows: (i) as to 25% of the total number of Granted Options on 1 December 2023; (ii) as to 25% of the total number of Granted Options on 1 December 2024; (iii) as to 25% of the total number of Granted Options on 1 December 2025; and (iv) as to 25% of the total number of Granted Options on 1 December 2026. Once vested, the Granted Options shall be exercisable on a cumulative basis.

9. Details of share options granted to the Directors are disclosed in the section headed "Directors' and chief executive's interests and short positions in Shares, underlying shares and debentures of the Company or its associated corporations" above.

10. The weighted average closing price of the Shares immediately before the dates on which the Granted Options were exercised was HK$6.31.

11. The share options granted under the share option scheme during the year ended 31 December 2022 were not conditional upon satisfaction of performance target.

As at the date of this annual report, the total number of Shares available for issue upon exercise of all outstanding options already granted under the Scheme was 59,662,050, representing approximately 5.49% of the issued share capital of the Company.

As at the date of this annual report, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 29,752,650, representing approximately 2.74% of the issued share capital of the Company.

The number of options available for grant under the share option scheme is 41,921,400 as at 1 January 2022 and 29,402,650 as at 31 December 2022.

The number of shares that may be issued in respect of options granted under the share option scheme of the Company during the financial year divided by the weighted average number of shares in issue for the Year is 1.2%.

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

As at 31 December 2022, the following persons (other than the interests of the Directors or chief executives of the Company as disclosed above) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares held[1]	Approximate shareholding percentage (%)
Magnate Era [2, 5 & 7]	Beneficial owner	525,000,000 (L)	48.30%
Treasure Map [4 & 5]	Beneficial owner	75,000,000 (L)	6.90%
Heroic Mind [6 & 7]	Beneficial owner	75,000,000 (L)	6.90%
Zenith Benefit [3, 5 & 7]	Beneficial owner	42,970,000 (L)	3.95%

Notes:

1. The letter "L" denotes long position of the shares.

2. Magnate Era is a corporate Controlling Shareholder legally and beneficially owned by both Mr. Luk and Mr. Chan in equal shares.

3. Zenith Benefit is a corporate Controlling Shareholder legally and beneficially owned by both Mr. Luk and Mr. Chan in equal shares.

4. Treasure Map is a corporate Controlling Shareholder legally and beneficially owned as to 100.0% by Mr. Luk.

5. As disclosed in Notes 2 to 4 above, Mr. Luk owned 50.0% shareholding interest in Magnate Era, 50.0% shareholding interest in Zenith Benefit and 100.0% shareholding interest in Treasure Map (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 642,970,000 Shares directly held by the aforesaid three holding companies.

6. Heroic Mind was a corporate Controlling Shareholder legally and beneficially owned as to 100.0% by Mr. Chan.

7. As disclosed in Notes 2, 3 and 6 above, Mr. Chan owned 50.0% shareholding interest in Magnate Era, 50.0% shareholding interest in Zenith Benefit and 100.0% shareholding interest in Heroic Mind (all being corporate Controlling Shareholders). He is deemed under the SFO to be interested in the entirety of 642,970,000 Shares directly held by the aforesaid three holding companies.

Save as disclosed above, as at 31 December 2022, there are no other persons (other than Directors or chief executives of the Company) who had or are taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company under Section 336 of the SFO, or which are notified to the Company.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no Controlling Shareholders or their subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the Group to which the Company or any of its subsidiaries was a party during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2022, the Group's sales to its five largest customers accounted for 33.8% of the Group's total revenue, as compared to 27.5% for the year ended 31 December 2021. The Group's sales to the largest customer accounted for 12.8% of the Group's total revenue, as compared to 10.6% for the year ended 31 December 2021.

Major Suppliers

For the year ended 31 December 2022, the Group's five largest suppliers accounted for 84.4% of the Group's total purchase, as compared to 84.6% for the year ended 31 December 2021. The Group's single largest supplier accounted for 75.2% of the Group's total purchases, as compared to 76.7% for the year ended 31 December 2021.

During the year ended 31 December 2022, none of the Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

MANAGEMENT CONTRACTS

During the Reporting Period, the Company has not entered into any contract with any individuals, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts or otherwise in relation thereto in accordance with the Articles of Association. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group during the year ended 31 December 2022.

SPECIFIC PERFORMANCE OBLIGATIONS OF CONTROLLING SHAREHOLDERS UNDER RULE 13.18 OF THE LISTING RULES

On 14 February 2023, the Company as borrower, and Intron Technology (China) Limited (the "**Guarantor**"), a direct wholly-owned subsidiary of the Company as guarantor, entered into a facilities agreement (the "**Facilities Agreement**") with a syndicate of banks as lenders (collectively referred to as the "**Lenders**") for a syndicated loan in the total principal amount of up to US$60,000,000 (the "**Facilities**") subject to the terms and conditions of the Facilities Agreement. The Facilities have a final repayment date falling 36 months from the first drawdown date. Pursuant to the Facilities Agreement, if Mr. Luk Wing Ming and Mr. Chan Cheung Ngai (the "**Ultimate Controlling Shareholders**") collectively do not or cease to (a) own beneficially, directly or indirectly, at least 51% of all the issued share capital (which are free from any security) in the Company or the Guarantor or (b) control the Company or the Guarantor; the Lenders would be entitled to cancel the available commitment under the Facilities and to declare that all amounts outstanding (including the loans and interest accrued) under the Facilities Agreement shall immediately become due and payable.

As at the date of this report, the above specific performance obligations imposed on the Ultimate Controlling Shareholders under the Facilities Agreement continue to exist.

SHARE CAPITAL

Details of movements in share capital of the Company during the Reporting Period are set out in note 30 to the consolidated financial statements in this annual report.

RESERVES

Details of movements in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity and note 32 to the consolidated financial statements in this annual report.

The Company's reserves available for distribution to the Shareholder as at 31 December 2022 amounted to RMB821.9 million (RMB884.6 million as at 31 December 2021).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Year are set out in note 13 to the consolidated financial statements in this annual report.

USE OF PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 July 2018 with net proceeds received by the Company from the Global Offering (as defined in the Prospectus) amounted to HK$766.7 million (equivalent to RMB655.4 million), after deducting the underwriting fees, commissions and all related expenses (the "**Net Proceeds**").

USE OF PROCEEDS FROM LISTING (CONTINUED)

As disclosed in the announcement of the Company dated 12 July 2019, having reassessed the funding needs for the enhancement of the Group's overall R&D infrastructure, the Board has resolved to change the proposed use of part of the Net Proceeds originally allocated for the enhancement of the Group's R&D infrastructure by investing in and acquiring testing and other equipment, and technology software to accelerate the Group's solutions development cycle and thus increase exposure of the Group's solutions to customers by enhancement of the Group's R&D infrastructure by (i) investing in and acquiring testing and other equipment, and technology software to accelerate the Group's solution development cycle and thus increase exposure of the Group's solutions to customers; and (ii) investing in, acquiring and renovating properties for R&D purposes.

During the Year, the Net Proceeds have been used for the purpose consistent with the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus and the announcement of the Company dated 12 July 2019.

The planned applications of the Net Proceeds, details of the original and revised allocation of the Net Proceeds, and the utilization of the Net Proceeds as at 31 December 2022 are set out below:

Use of proceeds	Planned applications (RMB million)	Percentage of total Net Proceeds (%)	Actual usage up to 31 December 2022 (RMB million)	Unutilized Net Proceeds as at 31 December 2022 (RMB million)	Expected timeframe for utilizing the remaining unused Net Proceeds
1. For the expansion of research and development capabilities	196.6	30	196.6	0	N/A
2. For the enhancement of research and development infrastructure	196.6	30	196.6	0	N/A
3. For the acquisitions of research and development capabilities	196.6	30	116.3	80.3	Expected to be fully utilized by end of 2024*
4. General working capital	65.6	10	65.6	0	N/A
Total	655.4	100	575.1	80.3	

* The COVID-19 pandemic has created economic uncertainties and caused disruptions to a wide range of economic activities. As a result, with continuous assessment on the risk and opportunity for the acquisition of research and development capabilities, the expected timeframe for utilizing the remaining unused net proceeds is extended to 2024 from 2022.

PLACING OF SHARES

On 26 January 2021, the Company and BNP Paribas Securities (Asia) Limited (the "**Placing Agent**") entered into a placing agreement (the "**Placing Agreement**"), pursuant to which and subject to the terms and conditions therein, the Company agreed to appoint the Placing Agent, and the Placing Agent agreed to act as placing agent for the purpose of procuring on a best efforts basis, as agent of the Company, placees to purchase up to 45,000,000 new Shares to be issued by the Company and to be placed pursuant to the Placing Agreement (the "**Placing Shares**") at HK$6.82 per Placing Share (the "**Placing Price**") on the terms and subject to the conditions set out in the Placing Agreement.

PLACING OF SHARES (CONTINUED)

On 3 February 2021, an aggregate of 45,000,000 Placing Shares have been successfully allotted and issued to not fewer than six independent placees at the Placing Price (the "**Placing**") and the Placing was completed on the same day. The aggregate nominal value of the Placing Shares was HK$450,000 and the closing price as quoted on the Stock Exchange on 26 January 2021, being the date of the Placing Agreement, was HK$8.51 per Share. The net price per such Placing Share was approximately HK$6.73. The net proceeds from the Placing amounted to HK$302.8 million (equivalent to approximately RMB252.6 million). Immediately after completion of the Placing, the Shares held by the placees accounted for 4.15% of the issued share capital of the Company. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the placees and their respective ultimate beneficial owners are independent third parties of the Company. None of the placees has become a substantial Shareholder (as defined in the Listing Rules) immediately after completion of the Placing.

For details of the Placing, please refer to the announcements of the Company dated 26 January 2021 and 3 February 2021.

During the Year, the net proceeds from the Placing have been used for the purpose consistent with that disclosed on the aforementioned announcements. The planned applications of the net proceeds from the Placing, actual usage of such net proceeds up to 31 December 2022 and the expected timeframe for utilizing the remaining unused net proceeds from the Placing are set out below:

Use of proceeds	**Planned applications** (RMB million)	**Percentage of total net proceeds** (%)	**Actual usage up to 31 December 2022** (RMB million)	**Unutilized net proceeds as at 31 December 2022** (RMB million)	**Expected timeframe for utilizing the remaining unused net proceeds**
1. Developing software platform towards intelligent driving solutions	62.0	25	43.0	19.0	Expected to be fully utilized by end of 2023
2. Further developing software systems and electronic controls solutions for automotive electric vehicle	35.0	14	25.9	9.1	Expected to be fully utilized by end of 2023
3. Application of higher power semiconductor solutions	35.0	14	29.2	5.8	Expected to be fully utilized by end of 2023
4. Further developing the Group's testing and validation centre for intelligent driving	62.0	25	42.0	20.0	Expected to be fully utilized by end of 2023
5. General working capital	58.6	22	58.6	0	N/A
Total	252.6	100	198.7	53.9	

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EQUITY-LINKED AGREEMENTS

Details of the share option scheme of the Company are set out in the section headed "Share Option Scheme" above and Note 31 to the consolidated financial statements.

Save as disclosed above, no equity-linked agreement will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares, were entered into by the Company during the Year or subsisted at the end of the Year.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM will be held on Monday, 29 May 2023. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 23 May 2023 to Monday, 29 May 2023, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday , 22 May 2023.

For determining the entitlement to the proposed final dividend subject to the approval by Shareholders at the AGM, the register of members of the Company will be closed from Monday, 5 June 2023 to Friday, 9 June 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to be qualified for the proposed final dividend for the year ended 31 December 2022, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 2 June 2023.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 25 to 41 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the total issued capital of an issuer must be held by the public at any time. Based on the information that is publicly available and within the knowledge of the Directors, as at the date of this annual report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

AUDITORS

The Company has appointed Ernst & Young as the auditor of the Company for the year ended 31 December 2022. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

By Order of the Board
Intron Technology Holdings Limited
Luk Wing Ming
Chairman and executive Director

Hong Kong, 27 March 2023

INDEPENDENT AUDITOR'S REPORT

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

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Independent auditor's report
To the shareholders of Intron Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Intron Technology Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 71 to 172, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	**How our audit addressed the key audit matter**
Write-down of inventories	
As at 31 December 2022, the net carrying value of inventories amounted to RMB1,085,576,000, which represented 26.6% of the Group's total assets. The Group states inventories at the lower of cost and net realisable value. While cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads, net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Allowance for inventory obsolescence is based on management's judgement using the available facts and circumstances, including but not limited to, the inventories' own physical conditions, their market selling prices and estimated selling costs of the inventories. We focus this area as the inventories are material to the Group and the determination of the allowance for slow-moving and obsolete involves significant judgement and estimation from management. The Group's disclosures about the write-down of inventories are included in notes 2.4, 3 and 18 to the financial statements, which also explain the accounting policies and management's accounting estimates.	We evaluated management's assessment on the write-down of inventories by checking the detailed ageing analysis of the inventories. We also reviewed, on a sampling basis, the subsequent market selling price, estimated selling costs of the inventories and assessed the actual and forecast usage for the inventories. We recalculated the expected provisions to check the mathematical accuracy of the calculation. We also attended physical inventory counts, on a sampling basis, to observe the condition of the inventories and to evaluate the provision for slow-moving and obsolete inventories.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
As at 31 December 2022, the net carrying value of the Group's trade receivables amounted to RMB1,478,132,000, after netting off with an impairment provision of RMB12,049,000, which represented 36.3% of the Group's total assets. The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management. Impairment of trade receivables is assessed based on the expected credit loss model which requires significant judgements and estimates from management. In assessing the expected credit loss for the trade receivables, management considers various factors such as the ageing of the balance, existence of disputes, recent historical payment patterns, any other available information concerning the creditworthiness of counterparties, influence from macro economy and other key forward looking factors. The assessment is highly judgemental. The Group's disclosures about trade receivables are included in notes 2.4, 3 and 19 to the financial statements, which also explain the accounting policies, management's accounting estimates and the related expected credit losses.	We evaluated management's assessment on the recoverability of the trade receivables by reviewing the detailed analyses of the ageing of the receivables, historical payment patterns, any disputes between the parties involved and the credit status of the counterparties where available, and testing, on a sampling basis, payments received subsequent to the year end. We reviewed the estimates used to determine the expected credit losses by considering cash collection performance against historical trends and the forward-looking adjustments used in the simplified approach and checked the mathematical accuracy of the calculations.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hooi Wan Yee.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	**4,829,943**	3,176,164
Cost of sales		**(3,789,330)**	(2,550,981)
Gross profit		**1,040,613**	625,183
Other income and gains	5	**39,868**	30,470
Selling and distribution expenses		**(106,320)**	(100,710)
Administrative expenses		**(427,218)**	(313,332)
Other expenses		**(49,585)**	(1,899)
Finance costs	7	**(44,538)**	(23,524)
Share of profits and losses of associates	16	**2,100**	577
PROFIT BEFORE TAX	6	**454,920**	216,765
Income tax expense	10	**(43,813)**	(16,556)
PROFIT FOR THE YEAR		**411,107**	200,209
Attributable to:			
Owners of the parent		**414,963**	200,606
Non-controlling interests		**(3,856)**	(397)
		411,107	200,209
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**RMB38.22 cents**	RMB18.58 cents
Diluted	12	**RMB37.81 cents**	RMB18.25 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
PROFIT FOR THE YEAR	**411,107**	200,209
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(79,105)**	25,175
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(79,105)**	25,175
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**2,325**	–
Income tax effect	**(380)**	–
Exchange differences on translation of the Company	**77,745**	(23,410)
Net other comprehensive income/(loss)that will not be reclassified to profit or loss in subsequent periods	**79,690**	(23,410)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**585**	1,765
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**411,692**	201,974
Attributable to:		
Owners of the parent	**415,548**	202,371
Non-controlling interests	**(3,856)**	(397)
	411,692	201,974

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**195,156**	170,410
Right-of-use assets	14(a)	**33,171**	32,659
Other intangible assets	15	**325,309**	223,972
Investments in associates	16	**12,666**	10,566
Financial assets at fair value through profit or loss	22	**85,218**	76,263
Equity investment designated at fair value through other comprehensive income	17	**3,324**	995
Deferred tax assets	28	**53,599**	41,807
Advance payments for property, plant and equipment		**15,616**	8,695
Total non-current assets		**724,059**	565,367
CURRENT ASSETS			
Inventories	18	**1,085,576**	497,904
Trade and notes receivables	19	**1,697,742**	1,163,373
Contract assets	21	**61**	791
Prepayments, other receivables and other assets	20	**181,668**	27,466
Pledged deposits	23	**48,861**	32,246
Cash and cash equivalents	23	**336,946**	571,747
Total current assets		**3,350,854**	2,293,527
CURRENT LIABILITIES			
Trade and notes payables	24	**330,658**	236,595
Other payables and accruals	25	**577,698**	194,307
Derivative financial instruments	26	**971**	598
Interest-bearing bank and other loans	27	**950,221**	631,670
Lease liabilities	14(b)	**20,205**	14,738
Tax payable		**26,923**	18,470
Government grants	29	**–**	250
Total current liabilities		**1,906,676**	1,096,628

	Notes	2022 RMB'000	2021 RMB'000
NET CURRENT ASSETS		**1,444,178**	1,196,899
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,168,237**	1,762,266
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	**12,735**	17,970
Government grants	29	**940**	1,080
Deferred tax liabilities	28	**5,925**	–
Total non-current liabilities		**19,600**	19,050
Net assets		**2,148,637**	1,743,216
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**9,241**	9,221
Reserves	32	**2,128,741**	1,733,402
		2,137,982	1,742,623
Non-controlling interests		**10,655**	593
Total equity		**2,148,637**	1,743,216

Mr. Luk Wing Ming
Director

Mr. Chan Cheung Ngai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to owners of the parent									
	Share capital RMB'000 (note 30)	Share premium* RMB'000	Share option reserve* RMB'000 (note 31)	Statutory surplus reserve* RMB'000 (note 32)	Capital reserve* RMB'000 (note 32)	Exchange fluctuation reserve* RMB'000 (note 32)	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	8,816	671,983	19,245	13,999	7,733	23,828	546,308	1,291,912	–	1,291,912
Profit for the year	–	–	–	–	–	–	200,606	200,606	(397)	200,209
Other comprehensive income/(loss) for the year:										
Exchange differences on translation of the Company	–	–	–	–	–	(23,410)	–	(23,410)	–	(23,410)
Exchange differences on translation of foreign operations	–	–	–	–	–	25,175	–	25,175	–	25,175
Total comprehensive income for the year	–	–	–	–	–	1,765	200,606	202,371	(397)	201,974
Transfer of surplus reserve	–	–	–	1,667	–	–	(1,667)	–	–	–
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	990	990
Issue of shares	375	252,211	–	–	–	–	–	252,586	–	252,586
Exercise of share options	30	11,348	(3,280)	–	–	–	–	8,098	–	8,098
Equity-settled share option arrangements	–	–	16,302	–	–	–	–	16,302	–	16,302
Dividends declared and paid	–	–	–	–	–	–	(28,646)	(28,646)	–	(28,646)
At 31 December 2021	9,221	935,542	32,267	15,666	7,733	25,593	716,601	1,742,623	593	1,743,216

	Attributable to owners of the parent										
	Share capital RMB'000 (note 30)	Share premium* RMB'000	Share option and award reserve* RMB'000 (note 31)	Statutory surplus reserve* RMB'000 (note 32)	Capital reserve* RMB'000 (note32)	Exchange fluctuation reserve* RMB'000 (note 32)	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022	9,221	935,542	32,267	15,666	7,733	25,593	-	716,601	1,742,623	593	1,743,216
Profit for the year	-	-	-	-	-	-	-	414,963	414,963	(3,856)	411,107
Other comprehensive income/(loss) for the year:											
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	1,945	-	1,945	-	1,945
Exchange differences on translation of the Company	-	-	-	-	-	77,745	-	-	77,745	-	77,745
Exchange differences on translation of foreign operations	-	-	-	-	-	(79,105)	-	-	(79,105)	-	(79,105)
Total comprehensive income for the year	-	-	-	-	-	(1,360)	1,945	414,963	415,548	(3,856)	411,692
Transfer of surplus reserve	-	-	-	4,687	-	-	-	(4,687)	-	-	-
Deemed disposal of an equity interest in a subsidiary without losing control	-	-	-	-	18,092	-	-	-	18,092	13,918	32,010
Exercise of share options	20	7,893	(2,244)	-	-	-	-	-	5,669	-	5,669
Equity-settled share option and award arrangements	-	-	19,062	-	-	-	-	-	19,062	-	19,062
Dividends declared and paid	-	-	-	-	-	-	-	(63,012)	(63,012)	-	(63,012)
At 31 December 2022	9,241	943,435	49,085	20,353	25,825	24,233	1,945	1,063,865	2,137,982	10,655	2,148,637

* These reserve accounts comprise the consolidated reserves of RMB2,128,741,000 (2021: RMB1,733,402,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**454,920**	216,765
Adjustments for:			
Finance costs	7	**44,538**	23,524
Share of profits and losses of associates	16	**(2,100)**	(577)
Interest income	5	**(4,254)**	(4,952)
Loss on disposal of items of property, plant and equipment		**–**	16
Fair value loss, net:			
Derivative instruments		**373**	598
Depreciation of property, plant and equipment	6	**39,154**	29,711
Depreciation of right-of-use assets	14(a)	**19,222**	15,843
Gain on terminations of leases		**–**	(116)
Amortisation of other intangible assets		**26,741**	14,063
Recognition of government grants		**(60)**	(152)
Equity-settled share option and award expense	31	**19,062**	16,302
Gain on disposal of financial assets at fair value through profit or loss	5	**(6,236)**	–
Fair value gain, net:			
Financial assets at fair value through profit or loss-mandatority designated as such	5	**(5,354)**	–
		586,006	311,025
Increase in inventories		**(587,672)**	(50,448)
Increase in trade and notes receivables		**(534,369)**	(380,425)
Decrease in contract assets		**730**	261
(Increase)/decrease in prepayments, other receivables and other assets		**(152,202)**	11,994
Increase in trade and notes payables		**94,063**	162,108
Increase/(decrease) in other payables and accruals		**383,091**	(25,953)
Decrease in government grants		**(330)**	(2,600)
Cash (used in)/generated from operations		**(210,683)**	25,962
Interest received		**4,254**	5,078
Interest paid		**(44,538)**	(23,524)
Income tax paid		**(41,607)**	(22,046)
Net cash flows used in operating activities		**(292,574)**	(14,530)

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(74,999)**	(49,531)
Additions to other intangible assets		**(124,932)**	(108,978)
Purchases of financial assets at fair value through profit or loss		**(22,000)**	(61,263)
Proceeds from disposal of items of property, plant and equipment		**1,327**	28
Purchase of a shareholding in an associate		**–**	(2,000)
Proceeds from disposal of financial assets at fair value through profit or loss		**26,236**	–
Purchase of equity investments designated at fair value through other comprehensive income		**–**	(495)
Net cash flows used in investing activities		**(194,368)**	(222,239)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	252,586
Proceeds from exercise of share options		**5,669**	8,098
New bank and other loans	33(b)	**3,596,205**	1,956,182
Repayment of bank and other loans	33(b)	**(3,327,383)**	(1,748,219)
Principal portion of lease payments	33(b)	**(19,509)**	(16,233)
Capital injection by non-controlling shareholders		**30,010**	990
Dividends paid		**(63,012)**	(28,646)
(Increase)/decrease in pledged deposits		**(16,615)**	3,302
Net cash flows from financing activities		**205,365**	428,060
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(281,577)**	191,291
Effect of foreign exchange rate changes, net		**46,776**	(7,805)
Cash and cash equivalents at beginning of year		**571,747**	388,261
CASH AND CASH EQUIVALENTS AT END OF YEAR		**336,946**	571,747
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**336,946**	571,747
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows		**336,946**	571,747

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 3 January 2017. The registered address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. During the year, the Company's subsidiaries focused on developing automotive component engineering solutions for key automotive manufacturers in Mainland China.

In the opinion of the directors, the Company does not have an immediate holding company or ultimate holding company. Mr. Luk Wing Ming, Mr. Chan Cheung Ngai, Magnate Era Limited, Zenith Benefit Investments Limited ("Zenith Benefit"), Treasure Map Ventures Limited and Heroic Mind Limited are considered to be a group of controlling shareholders of the Company, as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 July 2018.

Information about subsidiaries:

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Intron Technology (China) Limited ("**Intron HK**")	Hong Kong	HK$7,500,000	100%	–	Sale of automotive and other electronic components
Evertronics Technology (China) Company Limited	Hong Kong	HK$10,000	–	100%	Sale of automotive and other electronic components
Shanghai Intron Electronics Company Limited ("**Shanghai Intron**") (上海英恒電子有限公司)**	People's Republic of China ("**PRC**")/ Mainland China	RMB10,000,000	–	100%	Research and development and sale of automotive and other electronic components
Guangzhou Intron Electronics Technology Company Limited ("**Guangzhou Intron**") (廣州英創電子科技有限公司)**	PRC/ Mainland China	RMB1,000,000	–	100%	Provision of import and export customs declaration agency services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries: (Continued)

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai G-Pulse Electronics Technology Company Limited ("**G-Pulse**") (上海金脈電子科技有限公司)**	PRC/ Mainland China	RMB150,000,000	–	100%	Research and development and sale of automotive and other electronic components
Beijing Maichuang Zhiheng Renewable Energy Technology Company Limited ("**Beijing G-Pulse**") (北京脈創智恒新能源科技有限公司)**	PRC/ Mainland China	RMB10,000,000	–	100%	Research and development of renewable electronic components
Intron Intelligent Technology (Shanghai) Company Limited (英恒智能科技(上海)有限公司)*	PRC/ Mainland China	RMB119,443,000	–	100%	Investment holding
Wuxi Maxdone Electronics Technology Company Limited ("**Wuxi Maxdone**") (無錫麥道電子科技有限公司)**	PRC/ Mainland China	RMB15,000,000	–	100%	Research and development and related business on embedded control electronic products and devices
Intron Technology Limited (英恒科技有限公司)	Taiwan	TWD18,000,000	–	100%	Research and development and sale of automotive and other electronic components
Shanghai G-Pulse Auto Electronics Company Limited (上海金脈汽車電子有限公司)*	PRC/ Mainland China	US$15,000,000	–	100%	Research and development and testing services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries: (Continued)

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

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Intron Technology (Netherlands) Holdings B.V.	Netherlands	EUR10,000	–	100%	Research and development and sale of automotive and other electronic components
Shenzhen Intron Electronics Company Limited ("**Shenzhen Intron**") (深圳英恒電子有限公司)*	PRC/ Mainland China	RMB10,000,000	–	100%	Research and development and sale of automotive and other electronic components
Intron Technology GmbH	Germany	EUR25,000	–	100%	Research and development and sale of automotive and other electronic components
Shanghai Yingheng Zihui Enterprise Management Co., Ltd. (上海英恒茲慧企業管理有限公司)**	PRC/ Mainland China	RMB500,000	–	100%	Enterprise management
Shanghai Qingheng Automotive Electronics Co., Ltd. ("**Shanghai Qingheng**") (上海氫恒汽車電子有限公司)** (note(a))	PRC/ Mainland China	RMB11,111,111	–	63%	Research and development of hydrogen fuel-cell battery control technology

* These entities are wholly-foreign-owned enterprises under PRC law.

** These entities are limited liability enterprises established under PRC law.

Note:

(a) In July 2022, Shanghai Qingheng increased its registered capital by RMB1,111,111 from RMB10,000,000 to RMB11,111,111. Huzhou Yongming Equity Investment Partnership (L.P.) (湖州湧銘股權投資合夥企業(有限合夥)) subscribed for RMB1,111,111 of the increased registered capital at a consideration of RMB30,000,000. Percentage of equity attributable to the Company changed from 70% to 63%.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion
5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023
6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

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

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

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

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

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

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

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

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

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

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

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

Fair value measurement

The Group measures its derivative financial instruments and unlisted investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

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

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

Buildings	4.75%
Leasehold improvements	20.00%-57.14%
Plant and machinery	9.50%-33.33%
Office equipment	19.00%-33.33%
Motor vehicles	19.00%-33.33%

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

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

Patents and software

Purchased patents and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 2 to 10 years.

Research and development costs

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

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

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

Leases

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

Group as a lessee

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Motor vehicles	3 years
Buildings	1-5 years

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

(b) Lease liabilities

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

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

The Group’s lease liabilities are presented separately in the statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Group as a lessee (continued)

(c) Short-term leases

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement (continued)

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

Financial assets at fair value through profit or loss

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (continued)

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

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has not increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other loans.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Subsequent measurement (Continued)

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments (Continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

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

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

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of products

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

(b) Consulting services

Revenue from the provision of consulting services is recognised at the point in time when the control of the service is transferred to the customer.

Other income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract assets

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

Contract liabilities

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

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

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

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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

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

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

There is no significant effect on the amounts recognised in the Group's financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on ageing analysis for groupings of various customer segments that have similar loss patterns such as by customer type.

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 19 and 21 to the financial statements, respectively.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made for those identified obsolete and slow-moving inventories and inventories with a carrying amount higher than net realisable value. The assessment of the provision required involves management's judgement and estimates which are influenced by assumptions concerning future sales and usage, and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amount of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. At 31 December 2022, the carrying amount of inventories was RMB1,085,576,000 (2021: RMB497,904,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Leases – Estimating the incremental borrowing rate

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2022 was RMB31,694,000 (2021: RMB25,580,000). The amount of unrecognised tax losses at 31 December 2022 was RMB88,058,000 (2021: RMB57,113,000). Further details are contained in note 28 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2022, the best estimate of the carrying amount of capitalised development costs was RMB302,781,000 (2021: RMB203,402,000).

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2022 RMB'000	2021 RMB'000
Hong Kong	**23,753**	33,403
Mainland China	**4,795,684**	3,094,145
Other countries/regions	**10,506**	48,616
	4,829,943	3,176,164

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

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Hong Kong	**45,148**	36,091
Mainland China	**624,828**	486,793
Other countries/regions	**484**	676
	670,460	523,560

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about major customers

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

	2022 RMB'000	2021 RMB'000
Customer 1	**618,062**	N/A*
Customer 2	**N/A***	337,451

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for that year.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	**4,829,943**	3,176,164

Revenue from contracts with customers

(i) Disaggregation of revenue

	2022 RMB'000	2021 RMB'000
Timing of revenue recognition		
At a point in time		
– Sale of products	**4,808,630**	3,151,613
– Rendering of consulting services	**21,313**	24,551
	4,829,943	3,176,164

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregation of revenue (continued)

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

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**35,974**	12,102
Consulting services	**8,057**	2,310
	44,031	14,412

(ii) Performance obligations

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

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Consulting services

The performance obligation is satisfied at the point in time when services are rendered and short-term advances are normally required before rendering the services. Consulting service contracts are for periods of one year or more and are billed based on the time incurred.

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

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	2022 RMB'000	2021 RMB'000
Other income		
Government grants (note a)	**20,381**	20,457
Bank interest income	**4,254**	4,952
Commission income	**1,154**	1,197
Foreign exchange gains, net	**–**	2,873
Compensation income	**1,861**	886
Others	**158**	105
	27,808	30,470
Gains		
Gain on disposal of financial assets at fair value through profit or loss	**6,236**	–
Gain on derivative instruments at fair value through profit or loss	**470**	–
Fair value gain, net:		
Financial assets at fair value through profit or loss - mandatorily designated as such	**5,354**	–
	39,868	30,470

Note:

(a) The amount represents grants received by the subsidiaries of the Company from the local government where they reside mainly for the purpose of compensation for expenses arising from research and development activities and to support the Group's operation and development. There are no unfulfilled conditions and other contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		**3,752,535**	2,539,177
Cost of services provided		**16,636**	11,804
Depreciation of property, plant and equipment		**39,154**	29,711
Depreciation of right-of-use assets	14(a)	**19,222**	15,843
Gain on terminations of leases		**–**	(116)
Amortisation of patents and software*		**6,582**	4,367
Research and development costs:			
Deferred expenditure amortised*	15	**20,159**	9,696
Current year expenditure		**312,316**	196,275
		332,475	205,971
Lease payments not included in the measurement of lease liabilities	14(c)	**4,273**	5,898
Auditor's remuneration		**3,184**	2,735
Employee benefit expense (excluding directors' and co-chief executives' remuneration (note 8)):			
Wages and salaries		**396,959**	293,650
Equity-settled share option and award expense		**18,275**	15,645
Pension scheme contributions***		**60,465**	44,471
Staff welfare expenses		**5,598**	7,618
Less: Amount capitalised		**(89,200)**	(88,821)
		392,097	272,563
Foreign exchange differences, net		**48,471**	(2,873)
(Reversal of impairment)/impairment of trade receivables, net	19	**(159)**	7,210
Write-down of inventories to net realisable value**		**6,322**	3,717
(Gain)/loss on derivative instruments at fair value through profit or loss		**(470)**	696
Gain on disposal of financial assets at fair value through profit or loss		**(6,236)**	-
Fair value gain, net:			
Financial assets at fair value through profit or loss - mandatorily designated as such		**(5,354)**	–
Bank interest income		**(4,254)**	(4,952)
Government grants		**(20,381)**	(20,457)
Donation		**–**	5
Loss on disposal of items of property, plant and equipment		**–**	16

6. PROFIT BEFORE TAX (CONTINUED)

* The amortisation of patents and software is included in "Administrative expenses" and the amortisation of deferred development costs for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

** The write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss.

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on bank borrowings	**28,430**	11,103
Interest on lease liabilities	**1,433**	1,257
Interest on discounted notes receivable	**14,675**	11,164
	44,538	23,524

8. DIRECTORS' AND CO-CHIEF EXECUTIVES' REMUNERATION

Directors' and co-chief executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2022 RMB'000	2021 RMB'000
Fees	**513**	497
Other emoluments:		
Salaries, allowances and benefits in kind	**15,005**	13,259
Performance related bonuses	**4,132**	2,135
Equity-settled share option and award expense	**788**	657
Pension scheme contributions	**92**	88
	20,017	16,139
	20,530	16,636

8. DIRECTORS' AND CO-CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

During the year and in prior years, certain directors were granted share options and restricted shares, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options and restricted shares, which has been recognised in the statement of profit or loss over the vesting period and restricted period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and co-chief executives' remuneration disclosures.

(a) Independent non-executive directors

	Fees RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2022			
Mr. Yu Hong	**154**	**25**	**179**
Mr. Tsui Yung Kwok	**205**	**25**	**230**
Mr. Jiang Yongwei	**154**	**25**	**179**
	513	**75**	**588**

	Fees RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2021			
Mr. Yu Hong	149	25	174
Mr. Tsui Yung Kwok	199	25	224
Mr. Jiang Yongwei	149	25	174
	497	75	572

8. DIRECTORS' AND CO-CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

(b) Executive directors and the co-chief executives

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option and award expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022						
Executive directors:						
Mr. Luk Wing Ming	–	4,476	1,711	–	23	6,210
Mr. Chan Cheung Ngai	–	4,462	1,711	–	23	6,196
Mr. Chan Ming	–	3,466	522	505	23	4,516
Mr. Ng Ming Chee	–	2,601	188	208	23	3,020
	–	15,005	4,132	713	92	19,942

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021						
Executive directors:						
Mr. Luk Wing Ming	–	3,916	664	–	22	4,602
Mr. Chan Cheung Ngai	–	3,906	664	–	22	4,592
Mr. Chan Ming	–	3,023	439	304	22	3,788
Mr. Ng Ming Chee	–	2,414	368	278	22	3,082
	–	13,259	2,135	582	88	16,064

Mr. Luk Wing Ming and Mr. Chan Cheung Ngai were also the co-chief executives of the Company.

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	**1,107**	1,105
Performance related bonuses	**1,170**	670
Equity-settled share option and award expense	**576**	292
Pension scheme contributions	**106**	97
	2,959	2,164

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

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

During the year and in prior years, share options and restricted shares were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options and restricted shares, which has been recognised in the statement of profit or loss over the vesting period and restricted period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-co-chief executive highest paid employee's remuneration disclosures.

10. INCOME TAX

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

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax in the Cayman Islands. The Company has registered with the Company Registry in Hong Kong on 22 December 2017 and recorded an interest income during the year. Since the provision of credit of the loan was in Hong Kong, the interest income received is subject to Hong Kong Profits Tax.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021:8.25%) and the remaining assessable profits are taxed at 16.5% (2021:16.5%).

The subsidiary in the Netherlands is entitled to a preferential income tax rate of 15% (2021: 15%) for the taxable income less than or equal to Euro395,000 and an income tax rate of 25.8% (2021: 25%) for the taxable income over Euro395,000. The subsidiary in the Chinese Taiwan is entitled to a tax exemption for the taxable income less than or equal to Taiwan dollar 120,000 and an income tax rate of 20% (2021: 20%) for the taxable income over Taiwan dollar 120,000. The subsidiary in Germany is entitled to a combined tax rate of 32.98% (2021: 32.98%), consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and a trade tax rate of 17.15%.

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law.

Shanghai Intron and G-Pulse are qualified as High and New Technology Enterprises and are subject to a preferential income tax rate of 15% (2021: 15%) during the year. In December 2022, Wuxi Maxdone is certified as High and New Technology Enterprises and is subject to a preferential income tax rate of 15% (2021: 25%). Guangzhou Intron, Beijing G-Pulse, and Shanghai Qingheng are qualified as Small and Micro Enterprises and are subject to a preferential tax rate of 2.5%-20% during the year.

	2022 **RMB'000**	2021 RMB'000
Current – Mainland China		
Charge for the year	**33,492**	23,083
Current – Elsewhere		
Charge for the year	**16,568**	11,622
Deferred tax (note 28)	**(6,247)**	(18,149)
Total tax charge for the year	**43,813**	16,556

10. INCOME TAX (CONTINUED)

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

	2022 RMB'000	2021 RMB'000
Profit before tax	**454,920**	216,765
Tax at the statutory income tax rate of 25%	**113,730**	54,191
Effect of tax rate differences in other jurisdictions	**(8,004)**	(2,111)
Preferential income tax rates applicable to certain subsidiaries	**(14,973)**	(4,291)
Additional deduction allowance for research and development costs	**(60,739)**	(32,435)
Profit attributable to associates	**(525)**	(117)
Expenses not deductible for tax	**3,337**	2,516
Income not subject to tax	**(2,576)**	(4,590)
Tax losses not recognised	**7,284**	5,485
Temporary differences not recognised	**688**	–
Recognition of deductible temporary differences brought forward from previous years	**(1,236)**	(2,092)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**5,000**	–
Effect on opening deferred tax of decrease in rates	**1,827**	–
Tax charge at the Group's effective rate	**43,813**	16,556

11. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Proposal final – HK13.1 cents (2021: HK6.8 cents) per ordinary share	**126,163**	59,699

The proposed final dividend of HK$142,396,000 (equivalent to RMB126,163,000) for the year, which is based on the Company's total number of shares as at 28 February 2023, is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,085,675,628 (2021: 1,079,777,792) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares under the share option scheme.

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

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**414,963**	200,606

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year	**1,085,675,628**	1,079,777,792
Effect of dilution – weighted average number of ordinary shares:		
Share options	**11,727,317**	19,177,569
	1,097,402,945	1,098,955,361

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022:							
Cost	74,179	21,663	105,227	44,055	12,210	8,931	266,265
Accumulated depreciation	(9,131)	(15,114)	(39,189)	(25,798)	(6,623)	–	(95,855)
Net carrying amount	65,048	6,549	66,038	18,257	5,587	8,931	170,410
At 1 January 2022, net of accumulated depreciation	65,048	6,549	66,038	18,257	5,587	8,931	170,410
Additions	104	9,384	23,566	11,724	–	23,600	68,378
Disposals	–	(5)	(1,066)	(254)	(2)	–	(1,327)
Depreciation provided during the year	(2,470)	(5,854)	(23,637)	(9,250)	(1,089)	–	(42,300)
Transfer from construction in progress	54	–	24,367	57	–	(24,478)	–
Foreign exchange Movement	–	–	–	(5)	–	–	(5)
At 31 December 2022, net of accumulated depreciation	62,736	10,074	89,268	20,529	4,496	8,053	195,156
At 31 December 2022:							
Cost	74,337	29,611	151,435	54,970	12,208	8,053	330,614
Accumulated depreciation	(11,601)	(19,537)	(62,167)	(34,441)	(7,712)	–	(135,458)
Net carrying amount	62,736	10,074	89,268	20,529	4,496	8,053	195,156

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021:							
Cost	69,381	18,898	75,562	34,366	9,691	11,545	219,443
Accumulated Depreciation	(5,620)	(10,810)	(25,123)	(18,127)	(5,635)	–	(65,315)
Net carrying amount	63,761	8,088	50,439	16,239	4,056	11,545	154,128
At 1 January 2021 net of accumulated depreciation	63,761	8,088	50,439	16,239	4,056	11,545	154,128
Additions	–	2,765	18,659	10,028	3,062	14,671	49,185
Disposals	–	–	(1)	(43)	–	–	(44)
Depreciation provided during the year	(3,511)	(4,304)	(15,466)	(8,043)	(1,531)	–	(32,855)
Transfer from construction in progress	4,798	–	12,407	80	–	(17,285)	–
Foreign exchange movement	–	–	–	(4)	–	–	(4)
At 31 December 2021, net of accumulated depreciation	65,048	6,549	66,038	18,257	5,587	8,931	170,410
At 31 December 2021:							
Cost	74,179	21,663	105,227	44,055	12,210	8,931	266,265
Accumulated depreciation	(9,131)	(15,114)	(39,189)	(25,798)	(6,623)	–	(95,855)
Net carrying amount	65,048	6,549	66,038	18,257	5,587	8,931	170,410

14. LEASES

The Group as a lessee

The Group has lease contracts for buildings and motor vehicles used in its operations. Leases of buildings generally have lease terms between 1 and 5 years, while motor vehicles have lease terms of 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Motor vehicles RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2021	173	22,767	22,940
Additions	–	27,925	27,925
Depreciation charge	(62)	(15,781)	(15,843)
Lease modification	–	(2,351)	(2,351)
Foreign exchange movement	(12)	–	(12)
As at 31 December 2021 and 1 January 2022	**99**	**32,560**	**32,659**
Additions	**–**	**19,545**	**19,545**
Depreciation charge	**(59)**	**(19,163)**	**(19,222)**
Foreign exchange movement	**2**	**187**	**189**
As at 31 December 2022	**42**	**33,129**	**33,171**

14. LEASES (CONTINUED)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amounts of the Group's lease liabilities and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	**32,708**	23,701
New leases	**19,545**	27,925
Accretion of interest recognised during the year	**1,433**	1,257
Payments	**(20,942)**	(17,490)
Lease modification	**–**	(2,467)
Foreign exchange movement	**196**	(218)
Carrying amount at 31 December	**32,940**	32,708
Analysed into:		
Current portion	**20,205**	14,738
Non-current portion	**12,735**	17,970

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

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

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**1,433**	1,257
Depreciation charge of right-of-use assets	**19,222**	15,843
Gain on terminations of leases	**–**	(116)
Lease payments not included in the measurement of lease liabilities	**4,273**	5,898
Total amount recognised in profit or loss	**24,928**	22,882

(d) The total cash outflow for leases is disclosed in notes 33(c).

15. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2022				
Cost at 1 January 2022, net of accumulated amortisation	**791**	**19,779**	**203,402**	**223,972**
Additions – internal development	**–**	**–**	**119,538**	**119,538**
Additions	**–**	**10,327**	**–**	**10,327**
Amortisation provided during the year	**(500)**	**(7,869)**	**(20,159)**	**(28,528)**
At 31 December 2022	**291**	**22,237**	**302,781**	**325,309**
At 31 December 2022:				
Cost	**21,409**	**43,716**	**335,044**	**400,169**
Accumulated amortisation	**(21,118)**	**(21,479)**	**(32,263)**	**(74,860)**
Net carrying amount	**291**	**22,237**	**302,781**	**325,309**
31 December 2021				
Cost at 1 January 2021, net of accumulated amortisation	2,385	19,293	104,235	125,913
Additions – internal development	–	–	108,863	108,863
Additions	–	6,535	–	6,535
Amortisation provided during the year	(1,594)	(6,049)	(9,696)	(17,339)
At 31 December 2021	791	19,779	203,402	223,972
At 31 December 2021:				
Cost	21,409	33,389	215,506	270,304
Accumulated amortisation	(20,618)	(13,610)	(12,104)	(46,332)
Net carrying amount	791	19,779	203,402	223,972

16. INVESTMENTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Share of net assets	**4,729**	1,786
Goodwill on acquisition	**7,937**	8,780
	12,666	10,566

The Group's shareholding in associates is held through wholly-owned subsidiaries of the Company.

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

	2022 RMB'000	2021 RMB'000
Share of the associates' profit for the year	**2,100**	577
Share of the associates' total comprehensive income	**2,100**	577
Aggregate carrying amount of the Group's investment in the associates	**12,666**	10,566

17. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Unlisted investment, at fair value	**3,324**	995

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

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Semiconductor devices and electronic components	**1,085,576**	497,904

19. TRADE AND NOTES RECEIVABLES

	2022 **RMB'000**	2021 RMB'000
Trade receivables	**1,490,181**	1,001,719
Notes receivable	**219,610**	174,056
	1,709,791	1,175,775
Impairment	**(12,049)**	(12,402)
	1,697,742	1,163,373

The Group's trading terms with its customers are mainly on credit. The credit period is generally within three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's related parties of RMB44,557,000 as at 31 December 2022 (2021: RMB65,369,000), which are repayable on credit terms similar to those offered to the other customers of the Group.

19. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	2022 RMB'000	2021 RMB'000
Less than 3 months	**1,384,454**	916,024
3 to 6 months	**42,037**	30,671
6 to 12 months	**31,380**	29,676
1 to 2 years	**20,097**	9,414
2 to 3 years	**164**	3,532
	1,478,132	989,317

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

	2022 RMB'000	2021 RMB'000
At beginning of year	**12,402**	8,756
Impairment losses, net (note 6)	**(159)**	7,210
Amount written off as uncollectible	**(194)**	(3,564)
At end of year	**12,049**	12,402

The decrease (2021: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Decrease in the loss allowance of RMB159,000 as a decrease in trade receivables with ageing over 2 years (2021: Increase in the loss allowance of RMB7,210,000 as an increase in trade receivables with ageing over 3 years); and

(ii) Decrease in the loss allowance of RMB194,000 (2021: RMB3,564,000) as a result of the write-off of certain trade receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted 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. Generally, trade receivables are written off if ageing more than three years and are not subject to enforcement activity.

19. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

As at 31 December 2022

	Ageing based on the invoice date				
	Less than 1 year	1 to 2 years	2 to 3 years	More than 3 years	Total
Expected credit loss rate	**0.15%**	**7.16%**	**20.77%**	**100.00%**	**0.81%**
Gross carrying amount (RMB'000)	**1,460,024**	**21,646**	**207**	**8,304**	**1,409,181**
Expected credit losses (RMB'000)	**2,152**	**1,550**	**43**	**8,304**	**12,049**

As at 31 December 2021

	Ageing based on the invoice date				
	Less than 1 year	1 to 2 years	2 to 3 years	More than 3 years	Total
Expected credit loss rate	0.18%	7.17%	13.58%	100.00%	1.24%
Gross carrying amount (RMB'000)	978,167	10,141	4,087	9,324	1,001,719
Expected credit losses (RMB'000)	1,796	727	555	9,324	12,402

The Group's notes receivable were all aged within one year, for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

As at 31 December 2022, notes receivable of RMB219,610,000 (2021: RMB174,056,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under HKFRS 9. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant in 2022.

At 31 December 2022, the Group endorsed certain notes receivable accepted by banks in Mainland China (the "**Endorsed Notes**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB100,436,000 (2021: RMB41,216,000) (the "**Endorsement**"). In addition, at 31 December 2022, the Group discounted certain notes receivable accepted by certain banks in Mainland China (the "**Discounted Notes**") with a carrying amount in aggregate of RMB958,443,000 (2021: RMB456,805,000). In accordance with the Law of Negotiable Instruments in Mainland China, the holders of the Endorsed Notes and the Discounted Notes have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**").

19. TRADE AND NOTES RECEIVABLES (CONTINUED)

In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to certain Endorsed Notes and Discounted Notes accepted by large and reputable banks with amounts of RMB94,949,000 (2021: RMB40,102,000) and RMB949,635,000 (2021: RMB443,133,000) as at 31 December 2022 (the "**Derecognised Notes**"). Accordingly, the Group has derecognised the full carrying amounts of these Derecognised Notes and the associated trade payables settled by the Endorsed Notes.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

At 31 December 2022, the Group continued to recognise the full carrying amounts of the remaining Endorsed Notes and the associated trade payables settled with an amount of RMB5,487,000 (2021: RMB1,114,000), and to recognise the proceeds received from the discount of the remaining Discounted Notes with an amount of RMB8,808,000 (2021: RMB13,672,000) as short-term loans because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes and Discounted Notes.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year and cumulatively. The endorsement and the discount have been made evenly during the year.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 **RMB'000**	2021 RMB'000
Prepayments	**151,736**	4,520
Prepaid expenses	**5,252**	3,269
Interest receivables	**158**	56
Other tax recoverable	**689**	3,271
Deposits and other receivables	**23,833**	16,350
	181,668	27,466

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2022 was close to zero (2021: close to zero).

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

21. CONTRACT ASSETS

	2022 **RMB'000**	2021 RMB'000
Contract assets arising from:		
Consulting services	**61**	791

Contract assets are initially recognised for revenue earned from the provision of consulting services as the receipt of consideration is conditional on successful completion of the consulting services. Included in contract assets for consulting services are retention receivables. Upon completion of the consulting services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2022 was the result of the decrease in the ongoing provision of consulting services at the end of the year.

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

	2022 **RMB'000**	2021 RMB'000
Within one year	**61**	791

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on ageing of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted 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. As at 31 December 2022 and 2021, the loss rate applied was close to zero and the loss allowance was assessed to be minimal.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Non-current		
Unlisted investments, at fair value	**85,218**	76,263

The above non-current unlisted equity investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The Group has interests in certain investee companies in the form of ordinary shares without significant influence, which are managed and their performance are evaluated on a fair value basis. The Group also made investments in certain convertible redeemable preferred shares or ordinary shares with preferential rights issued by the investee companies. The Group maintained significant influence in these companies but in substance had risks and returns different with those of interests in associates. The Group designated the whole instruments as financial assets at fair value through profit or loss.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**336,946**	571,747
Pledged deposits	**48,861**	32,246
	385,807	603,993
Less: Pledged deposits		
– Pledged for bank borrowings	**(41,249)**	(25,065)
– Pledged for letter of guarantee	**(5,600)**	(5,004)
– Pledged for notes payable	**(2,012)**	(2,177)
Cash and cash equivalents	**336,946**	571,747

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB213,350,000 (2021: RMB310,120,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods from one to six months and earn interest at the fixed time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Deposits amounting to RMB41,249,000 have been pledged to secure bank loans as at 31 December 2022 (2021: RMB25,065,000) (note 27).

24. TRADE AND NOTES PAYABLES

	2022 **RMB'000**	2021 RMB'000
Trade payables	**323,680**	231,153
Notes payable	**6,978**	5,442
	330,658	236,595

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

	2022 **RMB'000**	2021 RMB'000
Less than 3 months	**292,073**	229,528
3 to 6 months	**30,441**	856
6 to 12 months	**491**	475
1 to 2 years	**445**	287
Over 2 years	**230**	7
	323,680	231,153

Included in the trade and notes payables are trade payables of RMB42,000 (2021: Nil) due to the Group's related party, which are repayable on credit terms similar to those offered by the Group's related party to their major customers.

The trade payables are non-interest-bearing and are normally settled within three months.

25. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Other payables	(a)	**292,570**	19,889
Taxes payable other than corporate income tax		**45,050**	34,839
Payroll and welfare payable		**127,361**	84,375
Contract liabilities	(b)	**109,507**	52,294
Payables for purchase of property, plant and equipment		**3,210**	2,910
		577,698	194,307

Notes:

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

(b) Details of contract liabilities are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000	1 January 2021 RMB'000
Short-term advances received from customers			
Sale of goods	**77,315**	36,472	13,612
Consulting services	**32,192**	15,822	2,505
	109,507	52,294	16,117

Contract liabilities include short-term advances received to deliver products and consulting services. The increase in contract liabilities in 2022 and 2021 was mainly due to the increase in short-term advances received from new customers in relation to the sale of products.

Included in the other payables and accruals are contract liabilities to the Group's related parties of RMB2,666,000 (2021: 324,000).

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2022 RMB'000	2021 RMB'000
Forward currency contracts	**971**	598

The Group has entered into various forward currency contracts to manage its exchange rate exposures and are measured at fair value through profit or loss.

27. INTEREST-BEARING BANK AND OTHER LOANS

	2022		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans – secured	**3.40-7.30**	**2023**	**801,300**
Bank loans – unsecured	**2.55-4.15**	**2023**	**140,113**
Discounted notes receivable	**1.10-1.76**	**2023**	**8,808**
			950,221

	2021		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans – secured	1.65-3.95	2022	564,928
Bank loans – unsecured	3.85-4.35	2022	53,070
Discounted notes receivable	1.86-2.53	2022	13,672
			631,670

	2022 RMB'000	2021 RMB'000
Analysed into:		
Bank and other loans repayable:		
Within one year or on demand	**950,221**	631,670

Notes:

(a) Certain of the Group's bank loans are secured by the pledged of certain of the Group's deposits amounting to RMB41,249,000 (2021: RMB25,065,000) (note 23) and are guaranteed by the intercompany of the Group.

(b) At the end of the reporting period, the loans of the Group denominated in US$ and RMB amounted to RMB789,288,000 (2021: RMB527,901,000) and RMB160,933,000 (2021: RMB103,769,000), respectively.

28. DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Right-of-use assets RMB'000	Withholding taxes RMB'000	Fair value adjustments of financial assets at fair value through profit or loss RMB'000	Fair value adjustments of equity investment at fair value through other comprehensive income RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2021	93	2,474	–	–	–	2,567
Deferred tax charged to the statement of profit or loss during the year (note 10)	108	1,935	–	–	–	2,043
Gross deferred tax liabilities at 31 December 2021 and 1 January 2022	**201**	**4,409**	**–**	**–**	**–**	**4,610**
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	**(201)**	**498**	**5,000**	**874**	**–**	**6,171**
Deferred tax charged to other comprehensive income during the year	**–**	**–**	**–**	**–**	**380**	**380**
Gross deferred tax liabilities at 31 December 2022	**–**	**4,907**	**5,000**	**874**	**380**	**11,161**

28. DEFERRED TAX (CONTINUED)

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

Deferred tax assets

	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Decelerated amortisation for tax purposes RMB'000	Losses available for offsetting against future taxable profits RMB'000	Unrealised profit attributable to the intra-group transactions RMB'000	Impairment of inventories RMB'000	Equity-settled share options RMB'000	Lease liabilities RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2021	1,317	612	1,330	12,200	1,231	4,645	2,318	2,572	26,225
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	549	(412)	814	13,380	1,953	542	1,567	1,799	20,192
Gross deferred tax assets at 31 December 2021 and 1 January 2022	**1,866**	**200**	**2,144**	**25,580**	**3,184**	**5,187**	**3,885**	**4,371**	**46,417**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**(52)**	**(200)**	**1,367**	**6,114**	**2,158**	**1,094**	**1,491**	**446**	**12,418**
Gross deferred tax assets at 31 December 2022	**1,814**	**-**	**3,511**	**31,694**	**5,342**	**6,281**	**5,376**	**4,817**	**58,835**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2022 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**53,599**	41,807
Net deferred tax liabilities recognised in the consolidated statement of financial position	**5,925**	–
	47,674	41,807

28. DEFERRED TAX (CONTINUED)

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

	2022 RMB'000	2021 RMB'000
Tax losses	**88,058**	57,113
Deductible temporary differences	**4,172**	–

The above tax losses arising in Mainland China and Chinese Taiwan that will expire in one to five years and one to ten years, respectively, for offsetting against future taxable profits. The above tax losses arising in Hong Kong, Netherlands and Germany are available indefinitely for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the above item as it is not considered probable that taxable profits will be available against which the above item can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment subsidiaries established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred taxes of RMB5,000,000 (2021: Nil) have been recognised for withholding taxes that would be payable on the unremitted earnings for the year ended 31 December 2022.

At 31 December 2022, deferred tax of RMB5,000,000 (2021: Nil) has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled RMB765,481,000 as at 31 December 2022 (2021: RMB481,931,000). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future due to the Group's business development in Mainland China.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. GOVERNMENT GRANTS

	2022 RMB'000	2021 RMB'000
At 1 January	**1,330**	4,082
Grants received during the year	**1,970**	3,320
Recognised as income during the year	**(2,360)**	(6,072)
At 31 December	**940**	1,330
Current	**–**	250
Non-current	**940**	1,080

The grants related to the subsidies received from the government for the purpose of compensation for expenses arising from research and development and improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

30. SHARE CAPITAL

	2022 HK$'000	2021 HK$'000
Authorised: 2,400,000,000 (2021: 2,400,000,000) ordinary shares of HK$0.01 each	**24,000**	24,000

	2022 RMB'000	2021 RMB'000
Issued and fully paid: 1,086,969,900 (2021: 1,084,630,400) ordinary shares of HK$0.01 each	**9,241**	9,221

30. SHARE CAPITAL (CONTINUED)

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2021	**1,035,975,000**	**8,816**
Issue of shares	**45,000,000**	**375**
Share options exercised	**3,655,400**	**30**
At 31 December 2021 and 1 January 2022	**1,084,630,400**	**9,221**
Share options exercised (note (a))	**2,339,500**	**20**
At 31 December 2022	**1,086,969,900**	**9,241**

Note:

(a) The subscription rights attaching to 1,914,500 share options were exercised at the subscription price of HK$2.662 per share, 200,000 share options were exercised at the subscription price of HK$2.810 and 225,000 share options were exercised at the subscription price of HK$4.250 (note 31), resulting in the issue of 2,339,500 shares for a total cash consideration, before expenses, of HK$6,569,000 (equivalent to RMB5,669,000). An amount of HK$2,609,000 (equivalent to RMB2,244,000) was transferred from the share option reserve to share capital and share premium upon the exercise of the share options.

31. SHARE-BASED PAYMENTS

The Company conditionally adopted a share option scheme on 22 June 2018 (the "**Scheme**") for the purpose of recognising and acknowledging the contributions of certain eligible participants had or may have made to the Group whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years from the date of its adoption.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors or proposed director (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; any direct or indirect shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at 12 July 2018 (the date on which the ordinary shares of the Company were listed on the Stock Exchange), i.e. 100,000,000 shares of the Company representing approximately 9.22% of the issued share capital of the Company as at the date of this report. Subject to the issue of a circular by the Company and the approval of the shareholders in a general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the shareholders of the Company in a general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the board of directors.

Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares in issue from time to time.

31. SHARE-BASED PAYMENTS (CONTINUED)

The maximum number of shares issuable upon the exercise of options granted under the Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) to each eligible participant within any 12-month period, is limited to 1% of the shares in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company; and

(ii) the approval of the shareholders in a general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise period of the share options granted is determinable by the directors, which period may commence on the date of the offer of the share options, and end on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Scheme shall pay HK$1.00 to the Company by way of consideration for the grant.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

31. SHARE-BASED PAYMENTS (CONTINUED)

On 25 November 2022, the Company granted share options to the eligible participants to subscribe for a total of 13,020,000 (2021: 23,800,000) ordinary shares under the Scheme.

The following share options were outstanding under the Scheme during the year:

	2022 Weighted average exercise price HK$ per share	2022 Number of options '000	2021 Weighted average exercise price HK$ per share	2021 Number of options '000
At 1 January	**3.380**	**50,741**	2.679	31,977
Granted during the year	**4.324**	**13,020**	4.250	23,800
Exercised during the year	**2.827**	**(2,340)**	2.662	(3,655)
Lapsed during the year	**3.794**	**(1,143)**	4.042	(1,381)
At 31 December	**3.597**	**60,278**	3.380	50,741

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2022

Number of options '000	Exercise price HK$ per share	Exercise period
3,990	**2.662**	**1-1-20 to 31-12-25**
5,286	**2.662**	**1-1-21 to 31-12-25**
6,336	**2.662**	**1-1-22 to 31-12-25**
6,756	**2.662**	**1-1-23 to 31-12-25**
775	**2.810**	**1-10-21 to 30-9-27**
800	**2.810**	**1-10-22 to 30-9-27**
875	**2.810**	**1-10-23 to 30-9-27**
875	**2.810**	**1-10-24 to 30-9-27**
5,305	**4.250**	**1-6-22 to 31-5-28**
5,420	**4.250**	**1-6-23 to 31-5-28**
5,420	**4.250**	**1-6-24 to 31-5-28**
5,420	**4.250**	**1-6-25 to 31-5-28**
3,255	**4.324**	**1-12-23 to 30-11-29**
3,255	**4.324**	**1-12-24 to 30-11-29**
3,255	**4.324**	**1-12-25 to 30-11-29**
3,255	**4.324**	**1-12-26 to 30-11-29**
60,278		

31. SHARE-BASED PAYMENTS (CONTINUED)

2021

Number of options '000	Exercise price HK$ per share	Exercise period
4,589	2.662	1-1-20 to 31-12-25
5,944	2.662	1-1-21 to 31-12-25
7,004	2.662	1-1-22 to 31-12-25
7,004	2.662	1-1-23 to 31-12-25
900	2.810	1-10-21 to 30-9-27
900	2.810	1-10-22 to 30-9-27
900	2.810	1-10-23 to 30-9-27
900	2.810	1-10-24 to 30-9-27
5,650	4.250	1-6-22 to 31-5-28
5,650	4.250	1-6-23 to 31-5-28
5,650	4.250	1-6-24 to 31-5-28
5,650	4.250	1-6-25 to 31-5-28
50,741		

The fair value of the share options granted during the year was HK$25,814,000 (HK$1.98 each) (2021: HK$41,668,000 (HK$1.75 each)), of which the Group recognised a share option expense of HK$17,538,000 (equivalent to RMB14,728,000) (2021: HK$19,305,000 (equivalent to RMB16,302,000)) during the year.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2022	2021
Dividend yield (%)	**1.09**	2.21
Expected volatility (%)	**51.17**	51.21
Risk-free interest rate (%)	**3.69**	0.63

No other feature of the options granted was incorporated into the measurement of fair value.

The 2,339,500 share options exercised during the year resulted in the issue of 2,339,500 ordinary shares of the Company and new share capital of HK$23,395 (equivalent to RMB20,000) (before issue expenses), as further detailed in note 30 to the financial statements.

At the date of approval of these financial statements, the Company had 60,278,050 share options outstanding under the Scheme, which represented approximately 5.6% of the Company's shares in issue as at that date.

31. SHARE-BASED PAYMENTS (CONTINUED)

On 18 July 2022, Zenith Benefit Investments Limited ("Zenith Benefit", a corporate controlling shareholder legally and beneficially owned by both Mr. Luk Wing Ming and Mr. Chan Cheung Ngai in equal shares) transferred an aggregate of 14,360,000 shares (representing approximately 1.32% of the existing issued share capital of the Company) to the core research and development personnel and senior management members of the Group (the "**Selected Core Members**") as incentive shares at the consideration of HK$5.28 for each share. The major purpose of the restricted share unit plan is for the appreciation of the special contribution of the Selected Core Members over the past years, as well as encouraging their continual contribution to the future development of the Group.

The restricted share is conditional upon the Selected Core Members remaining as an eligible participant for the 3 years from 18 July 2022, otherwise, the Selected Core Members should return the shares unconditionally to Zenith Benefit. Eligible participant means any full-time or part-time employees, executives or officers (including executive and independent non-executive Directors) of the Group and any advisers, consultants, suppliers, customers, agents to the Company and related entities who, in the sole opinion of the Board, will contribute or have contributed to the Group.

The fair value of the restricted shares transferred amounted to HK$ 94,776,000, which was estimated as at the date of transfer using the market quoted price. The total restricted share award expense was HK$18,955,000 (equivalent to RMB16,286,000), of which the Group recognised a restricted share award expense of HK$5,044,000 (equivalent to RMB4,334,000) during the year.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 11 and 12 of the financial statements.

Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are registered in the PRC as domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company and the reserve arising from the reorganisation during the initial public offering process and difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid for acquisition of non-controlling interest in a subsidiary. Details of the movements in the capital reserve are set out in the consolidated statement of changes in equity.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB19,545,000 (2021: RMB27,925,000) and RMB19,545,000 (2021: RMB27,925,000), respectively, in respect of lease arrangements for buildings.

(b) Changes in liabilities arising from financing activities

2022

	Bank and other loans RMB'000	**Lease liabilities RMB'000**
At 1 January 2022	**631,670**	**32,708**
Changes from financing cash flows	**268,822**	**(19,509)**
New leases	**–**	**19,545**
Interest expense	**–**	**1,433**
Interest paid classified as operating cash flows	**–**	**(1,433)**
Foreign exchange movements	**49,729**	**196**
At 31 December 2022	**950,221**	**32,940**

2021

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 1 January 2021	433,075	23,701
Changes from financing cash flows	207,963	(16,233)
Lease termination	–	(2,467)
New leases	–	27,925
Interest expense	–	1,257
Interest paid classified as operating cash flows	–	(1,257)
Foreign exchange movements	(9,368)	(218)
At 31 December 2021	631,670	32,708

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

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

	2022 RMB'000	2021 RMB'000
Within operating activities	**1,433**	1,257
Within financing activities	**19,509**	16,233
	20,942	17,490

34. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2021: Nil).

35. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other loans are included in note 27 to the financial statements.

36. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Patents, plant and machinery	**4,813**	3,099

37. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Name	Relationship
Mr. Chan Cheung Ngai ("**Mr. Chan**")	Director, the ultimate shareholder
Mr. Luk Wing Ming ("**Mr. Luk**")	Director, the ultimate shareholder
United Trinity Electronics Co., Ltd. ("**UTE**")	An entity significantly influenced by Mr. Chan and Mr. Luk
Moshi Automatic Technology (Shanghai) Co., Ltd. ("**Moshi Automatic**")	An entity significantly influenced by Mr. Chan and Mr. Luk
Suzhou Chipswork Electronic Technologies Co., Ltd. ("**Chipswork**")	An entity jointly controlled by Mr. Chan and Mr. Luk
Shanghai Whaleye Technology Co., Ltd. ("**Whaleye**")	An associate of the Group
Shanghai EUCI Software Information Technology Co., Ltd. ("**EUCI Software**")	An associate of the Group

(a) In addition to the transactions detailed in note 27 to the financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2022 RMB'000**	2021 RMB'000
Sales of products to:			
UTE	(i)	**17,947**	65,509
Moshi Automatic	(i)	**748**	245
Whaleye	(i)	**364**	45
Chipswork	(i)	**5**	14
		19,064	65,813
Provision of services to:			
UTE	(i)	**–**	1,046
Moshi Automatic	(i)	**–**	212
		–	1,258
Purchases of goods and services from:			
Moshi Automatic	(ii)	**2,217**	–
EUCI Software	(ii)	**779**	669
UTE	(ii)	**39**	20
		3,035	689

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes:

(i) The sales of products and provision of services to related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases of goods and services from related parties were made according to the published prices and conditions offered by the related parties to their major customers.

(b) Outstanding balances with related parties:

Details of the Group's trade balances with its related parties as at the end of the reporting period are disclosed in notes 19, 24 and 25 to the financial statements.

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

	2022 **RMB'000**	2021 RMB'000
Short term employee benefits	**18,146**	16,334
Performance related bonuses	**7,132**	4,215
Equity-settled share option and award expense	**2,281**	1,324
Pension scheme contributions	**410**	379
Total compensation paid to key management personnel	**27,969**	22,252

Further details of directors' and co-chief executives' remuneration are included in note 8 to the financial statements.

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

2022

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income: Debt investment RMB'000	Financial assets at fair value through other comprehensive income: Equity investment RMB'000	Financial assets at fair value through profit or loss: Mandatorily designated as such RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	3,324	–	3,324
Trade and notes receivables	1,478,132	219,610	–	–	1,697,742
Financial assets included in prepayments, other receivables and other assets	23,991	–	–	–	23,991
Financial assets at fair value through profit or loss	–	–	–	85,218	85,218
Pledged deposits	48,861	–	–	–	48,861
Cash and cash equivalents	336,946	–	–	–	336,946
	1,887,930	219,610	3,324	85,218	2,196,082

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

2022 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	–	330,658	330,658
Financial liabilities included in other payables and accruals	–	295,780	295,780
Interest-bearing bank and other loans	–	950,221	950,221
Lease liabilities	–	32,940	32,940
Derivative financial instruments	971	–	971
	971	1,609,599	1,610,570

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

2021

Financial assets

		Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss	
	Financial assets at amortised cost RMB'000	Debt investment RMB'000	Equity investment RMB'000	Mandatorily designated as such RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	995	–	995
Trade and notes receivables	989,317	174,056	–	–	1,163,373
Financial assets included in prepayments, other receivables and other assets	16,406	–	–	–	16,406
Financial assets at fair value through profit or loss	–	–	–	76,263	76,263
Pledged deposits	32,246	–	–	–	32,246
Cash and cash equivalents	571,747	–	–	–	571,747
	1,609,716	174,056	995	76,263	1,861,030

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

2021 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and notes payables	–	236,595	236,595
Financial liabilities included in other payables and accruals	–	22,799	22,799
Interest-bearing bank and other loans		631,670	631,670
Lease liabilities	–	32,708	32,708
Derivative financial instruments	598	–	598
	598	923,772	924,370

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All the carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, financial assets included in prepayments, other receivables and other assets, trade and notes payables, financial liabilities included in other payables and accruals, interest-bearing bank and other loans and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities as at the end of the reporting period were assessed to be insignificant.

The Group enters into derivative financial instruments with banks. Derivative financial instruments, such as forward currency contracts, are measured using valuation technique similar to the forward pricing model, using present value calculation. The model incorporates various market observable inputs including foreign exchange spot and forward rates and the discount factor. The carrying amounts of forward currency contracts are the same as their fair values.

The fair values of unlisted equity investments designated at fair value through other comprehensive income and designated as financial assets at fair value through profit and loss have been estimated using a market based valuation technique and discounted cash flow valuation technique.

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income under HKFRS 9 as at 31 December 2022 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within one year, and thus their fair values approximate to their carrying values.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable	–	219,610	–	219,610
Equity investments designated at fair value through other comprehensive income	–	–	3,324	3,324
Financial assets at fair value through profit or loss	–	–	85,218	85,218
Total	–	219,610	88,542	308,152

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Notes receivable	–	174,056	–	174,056
Equity investments designated at fair value through other comprehensive income	–	–	995	995
Financial assets at fair value through profit or loss	–	–	76,263	76,263
Total	–	174,056	77,258	251,314

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

As at 31 December 2021, the management considered that the fair value measurements of the financial assets categorized within Level 3 of the fair value hierarchy approximated to their investment costs as these investments were purchased shortly before the year end.

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

	Equity investments designated at fair value through other comprehensive income RMB'000	Financial assets at fair value through profit or loss RMB'000
Carrying amount at 1 January 2021	995	15,000
Addition	–	61,263
Carrying amount at 31 December 2021 and 1 January 2022	995	76,263
Addition	–	22,000
Disposal	–	(26,236)
Gain on disposal of financial assets at fair value through profit or loss	–	6,236
Fair value gain on investments in equity instruments designated at fair value through other comprehensive income	2,325	–
Fair value gain on financial assets at fair value through profit or loss	–	5,354
Foreign exchange movement	4	1,601
Carrying amount at 31 December 2022	3,324	85,218

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

Quantitative information of significant unobservable inputs – Level 3:

Description	2022 RMB'000	Valuation technique	Unobservable input	Average of range
Equity investments designated at fair value through other comprehensive income	3,324	EV/EBIT multiple	Average EV/EBIT multiple of peers	21.8x
			Discount for lack of liquidity	22%
Financial assets at fair value through profit or loss	26,028	P/E multiple	Average P/E multiple of peers	12.9x
			Discount for lack of liquidity	21%
	59,190	Recent transaction and Option Pricing Method	N/A	N/A
	–	Cost approach	N/A	N/A

As at 31 December 2021, for the fair value of the unlisted equity investments at fair value through other comprehensive income and fair value through profit of loss, the management adopted the investment cost as the fair value considering those investments are recent transactions. No significant unobservable inputs used for the valuation of unlisted equity investments.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022:

Description	Unobservable input	Sensitivity used*	Effect on fair value RMB'000
Equity investments designated at fair value through other comprehensive income	Average EV/EBIT multiple of peers	1x	170
	Discount for lack of liquidity	5%	213
Financial assets at fair value through profit or loss	Average P/E multiple of peers	1x	2,015
	Discount for lack of liquidity	5%	1,647

* The sensitivity analysis refers to a percentage amount added or deducted from the input and the effect this has on the fair value.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

Significant increases (decreases) in the average multiple for comparable companies in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in the discount to average multiple in isolation would result in a significantly (lower) higher fair value measurement. In practice these measures are likely to move in opposite directions and therefore are likely to partially offset one another.

Liabilities measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	971	–	971

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	598	–	598

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and notes payables, which arise directly from its operations.

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2022		
RMB	**50**	**(172)**
RMB	**(50)**	**172**
US$	**50**	**(596)**
US$	**(50)**	**596**
2021		
RMB	50	(254)
RMB	(50)	254
US$	50	(248)
US$	(50)	248

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (arising from foreign currency denominated financial instruments).

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000
2022		
If the RMB weakens against the HK$	5	731
If the RMB strengthens against the HK$	(5)	(731)
If the RMB weakens against the US$	5	(30,303)
If the RMB strengthens against the US$	(5)	30,303
If the RMB weakens against the CHF	5	22
If the RMB strengthens against the CHF	(5)	(22)
If the RMB weakens against the EUR	5	(143)
If the RMB strengthens against the EUR	(5)	143
If the RMB weakens against the TWD	5	(18)
If the RMB strengthens against the TWD	(5)	18

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000
2021		
If the RMB weakens against the HK$	5	752
If the RMB strengthens against the HK$	(5)	(752)
If the RMB weakens against the US$	5	(9,820)
If the RMB strengthens against the US$	(5)	9,820
If the RMB weakens against the CHF	5	(192)
If the RMB strengthens against the CHF	(5)	192
If the RMB weakens against the EUR	5	324
If the RMB strengthens against the EUR	(5)	(324)
If the RMB weakens against the GBP	5	(14)
If the RMB strengthens against the GBP	(5)	14
If the RMB weakens against the TWD	5	(22)
If the RMB strengthens against the TWD	(5)	22

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	1,490,181	1,490,181
Contract assets*	–	–	–	61	61
Notes receivable**	219,610	–	–	–	219,610
Financial assets included in prepayments, other receivables and other assets					
– Normal**	23,991	–	–	–	23,991
Pledged deposits					
– Not yet past due	48,861	–	–	–	48,861
Cash and cash equivalents					
– Not yet past due	336,946	–	–	–	336,946
	629,408	–	–	1,490,242	2,119,650

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	1,001,719	1,001,719
Contract assets*	–	–	–	791	791
Notes receivable**	174,056	–	–	–	174,056
Financial assets included in prepayments, other receivables and other assets					
– Normal**	16,406	–	–	–	16,406
Pledged deposits					
– Not yet past due	32,246	–	–	–	32,246
Cash and cash equivalents					
– Not yet past due	571,747	–	–	–	571,747
	794,455	–	–	1,002,510	1,796,965

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 19 and 21 to the financial statements, respectively.

** The credit quality of notes receivable and the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 19 to the financial statements.

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing bank and other loans.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2022

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and notes payables	300,095	29,758	575	230	330,658
Financial liabilities included in other payables and accruals	295,780	–	–	–	295,780
Interest-bearing bank and other loans	233,006	595,633	130,551	–	959,190
Derivative financial instruments	–	971	–	–	971
Lease liabilities	–	5,541	16,372	13,863	35,776
	828,881	631,903	147,498	14,093	1,622,375

2021

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade and notes payables	230,348	4,637	1,348	262	236,595
Financial liabilities included in other payables and accruals	22,799	–	–	–	22,799
Interest-bearing bank and other loans	279,762	261,914	91,398	–	633,074
Derivative financial instruments	–	598	–	–	598
Lease liabilities	–	4,118	11,885	19,106	35,109
	532,909	271,267	104,631	19,368	928,175

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other loans, trade and notes payables and other payables and accruals, less cash and cash equivalents and pledged deposits. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2022 **RMB'000**	2021 RMB'000
Interest-bearing bank and other loans	**950,221**	631,670
Trade and notes payables	**330,658**	236,595
Other payables and accruals	**577,698**	194,307
Less: Cash and cash equivalents	**(336,946)**	(571,747)
Pledged deposits	**(48,861)**	(32,246)
Net debt	**1,472,770**	458,579
Equity attributable to owners of the parent	**2,137,982**	1,742,623
Capital and net debt	**3,610,752**	2,201,202
Gearing ratio	**41%**	21%

41. EVENTS AFTER THE REPORTING PERIOD

The Company and its subsidiaries have no significant subsequent events need to be disclosed.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Due from a subsidiary	**867,341**	855,247
Investments in subsidiaries	**51,349**	32,960
Total non-current assets	**918,690**	888,207
CURRENT ASSETS		
Prepayments, other receivables and other assets	**94**	229
Cash and cash equivalents	**18,687**	17,454
Total current assets	**18,781**	17,683
CURRENT LIABILITIES		
Other payables and accruals	**128**	102
Tax payable	**643**	987
Total current liabilities	**771**	1,089
NET CURRENT ASSETS	**18,010**	16,594
TOTAL ASSETS LESS CURRENT LIABILITIES	**936,700**	904,801
NET ASSETS	**936,700**	904,801
EQUITY		
Share capital	**9,241**	9,221
Reserves (note)	**927,459**	895,580
TOTAL EQUITY	**936,700**	904,801

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium RMB'000	Share option and award reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021	671,983	19,245	2,090	(54,273)	639,045
Profit for the year	–	–	–	32,010	32,010
Exchange differences on translation of the Company	–	–	(23,410)	–	(23,410)
Total comprehensive income for the year	–	–	(23,410)	32,010	8,600
Issue of shares	252,211	–	–	–	252,211
Exercise of share options	11,348	(3,280)	–	–	8,068
Equity-settled share option arrangements	–	16,302	–	–	16,302
Dividends declared and paid	–	–	–	(28,646)	(28,646)
At 31 December 2021 and 1 January 2022	**935,542**	**32,267**	**(21,320)**	**(50,909)**	**895,580**
Loss for the year	**–**	**–**	**–**	**(7,565)**	**(7,565)**
Exchange differences on translation of the Company	**–**	**–**	**77,745**	**–**	**77,745**
Total comprehensive income for the year	**–**	**–**	**77,745**	**(7,565)**	**70,180**
Exercise of share options	**7,893**	**(2,244)**	**–**	**–**	**5,649**
Equity-settled share option and award arrangements	**–**	**19,062**	**–**	**–**	**19,062**
Dividends declared and paid	**–**	**–**	**–**	**(63,012)**	**(63,012)**
At 31 December 2022	**943,435**	**49,085**	**56,425**	**(121,486)**	**927,459**

43. APPROVAL OF THE FINANCIAL STATEMENTS

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

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英恒