

Annual Report 2023



SUN.KING TECHNOLOGY GROUP LIMITED
賽晶科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 580

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CORPORATE INFORMATION

Executive Directors

Mr. Xiang Jie (*chairman of the board (the “Board”) of directors (the “Director(s)”*)

Mr. Gong Renyuan (*chief executive officer*)

Mr. Yue Zhoumin

Non-executive Director

Ms. Zhang Ling

Independent Non-executive Directors

Mr. Chen Shimin

Mr. Zhang Xuejun

Mr. Leung Ming Shu

Ms. White Caige (appointment effective on 1 April 2024)

Authorised Representatives

Mr. Yue Zhoumin

Ms. He Lina

Audit Committee

Mr. Chen Shimin (*chairman of the audit committee*)

Mr. Zhang Xuejun

Mr. Leung Ming Shu

Remuneration Committee

Mr. Leung Ming Shu

(*chairman of the remuneration committee*)

Mr. Chen Shimin

Mr. Zhang Xuejun

Nomination Committee

Mr. Zhang Xuejun

(*chairman of the nomination committee*)

Mr. Gong Renyuan

Mr. Chen Shimin

Strategy and Sustainability Committee

Mr. Xiang Jie

(*chairman of the strategy and sustainability committee*)

Ms. Zhang Ling

Mr. Chen Shimin

Mr. Zhang Xuejun

Mr. Leung Ming Shu

Company Secretary

Ms. He Lina

Legal Advisers

Loeb & Loeb LLP

External Auditor

Ernst & Young

Certified Public Accountants

Registered Public Interest Entity Auditor

Registered Office

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P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Headquarters

9-A, KongGangRongHuiYuan

Yuhua Road

Zone B, Airport Industrial Zone

Shunyi District

Beijing

People's Republic of China (the “PRC” or “China”)

Principal Place of Business in Hong Kong

31st Floor, Tower Two, Times Square

1 Matheson Street

Causeway Bay

Hong Kong

Principal Share Registrar and Transfer Office

Suntera (Cayman) Limited

Suite 3204, Unit 2A, Block 3, Building D

P.O. Box 1586

Gardenia Court, Camana Bay

Grand Cayman KY1-1100

Cayman Islands

Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

17th Floor, Far East Finance Centre

16 Harcourt Road

Hong Kong

Principal Banks

Bank of China Limited, Jiashan branch

China Construction Bank Corporation, Jiashan branch
and Wuxi Xishan branch

Listing Information

Place of listing: Main Board of The Stock Exchange of

Hong Kong Limited (the “**Stock Exchange**”)

Stock code: 580

Website

www.sunking-tech.com

Dear shareholders,

In June 2023, the National Energy Administration issued the “New Power System Development Blue Paper” which pointed out that the current period to the year 2030 will be a period of accelerated transformation, combining the resource potential to continue to actively build non-fossil energy sources, such as onshore and offshore wind power, photovoltaic power, hydropower in key river basins and coastal nuclear power, to promote new energies to gradually become the main incremental power generation; to accelerate the promotion of desert, Gobi and other desert areas as the focus of large-scale wind power photovoltaic base construction, give full play to the role of the power grid resources optimisation and allocation platform, and further expand the scale of cross-provincial and cross-regional corridors as represented by the West-to-East Power Transmission project. New modes of power consumption are emerging, gradually enhancing the level of electrification of end-use energy areas and the ability to flexibly adjust and respond on the users' side; energy storage is undergoing scale-up development on a regular basis in multi-application scenarios and on a multi-technology basis, with a focus on meeting the demand for balanced adjustment of the system on a daily basis.

Sun.King Technology Group Limited (the “**Company**”) and its subsidiaries (together with the Company, the “**Group**”) closely follow the national strategic guidelines and the direction of power technology development and are deeply engaged in power semiconductor and supporting devices as well as cutting-edge power electronics technologies which are crucial to the construction of new power systems. The Group's products are widely used in the key development areas of the “New Power System Development Blue Paper”, such as power transmission and distribution, electrified transportation, new energy power generation and energy storage for industrial control.

With efforts of an international team of first-class technical experts, the Group's insulated gate bipolar transistor (“**IGBT(s)**”) business progressed well in 2023. Committed to meeting the demand for domestic high-quality chips and modules in the fields of new energy power generation, electric vehicles, energy storage and industrial control, the sales volume of IGBT modules was approximately 170,000 units for the full year and revenue was approximately RMB81.4 million, representing an increase of approximately 105% as compared to the same period last year. Among them, revenue from high-end application market such as new energy power generation, energy storage and electric vehicles accounted for 90% of the total revenue. The Group's overseas business also achieved good results, especially in the electrified marine sector. Revenue amounted to approximately RMB67.6 million, representing an increase of approximately 80% as compared to the same period last year, due to the increase in sales of marine solid state direct current (“**DC**”) circuit breaker (categorised as solid-state alternating current (“**AC**”)/DC switches) products. In addition, a total of four $\pm 800\text{KV}$ ultra-high voltage DC (“**UHVDC**”) transmission projects, namely “Jinshang to Hubei”, “Longdong to Shandong”, “Ningxia to Hunan” and “Hami to Chongqing”, have commenced in succession. In the above projects, the Group has signed contracts for power capacitors with an aggregate amount of approximately RMB230 million, anode saturation reactors with an aggregate amount of approximately RMB230 million (from the beginning of 2023 to 17 April 2024 (which is the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained herein) (the “**Latest Practicable Date**”)) and a small number of orders for system of online monitoring of smart grid. As a result of signing of the above contracts and delivery of some of the products, the Group recorded significant increase in revenue from the high voltage DC sector, laying a solid foundation for achieving better results in 2024.

The Group has also achieved excellent results in a number of new products. For example, system of online monitoring of smart grid has not only been used successfully in a number of ultra-high voltage projects and intelligent power grid projects, such as “Longdong to Shandong $\pm 800\text{KV}$ UHVDC” and “Sichuan and Chongqing 1000KV Ultra-high Voltage Power Transmission”, but the Group has also launched a series of products for the wind power sector through in-depth technological cooperation with Wuhan University's School of Electrical Engineering; sales of the Group's marine solid-state DC circuit breakers not only increased in the overseas marine markets, but also made breakthroughs in the domestic marine market: such products were applied in “Zhuhai Yun”, the world's first domestic intelligent unmanned system carrier, as well as “Zhi Cheng” and “Zhi Zhen”, the first domestic offshore operation and maintenance of wind power carriers; our DC support capacitors (categorised as power electronic capacitors) were used successfully in projects such as the 100% new energy new power system technology demonstration project in Guangshui, Suizhou (隨州廣水100%新能源新型電力系統科技示範工程), the 220kV flexible low-frequency transmission demonstration project in Hangzhou (杭州220千伏柔性低頻輸電示範工程), and overseas SVG relevant projects in Saudi Arabia, Chile, the Philippines and other countries. In January 2024, the Group successfully passed the national new product technology appraisal, laying a good foundation for the realisation of mass domestic production substitution. Other products have also made major contribution to our revenue growth.

CHAIRMAN'S STATEMENT

In 2023, the Group has already launched a wide range of new products such as 1700V IGBT and FRD chips, ST type IGBT modules, HEEV type silicon carbide (“SiC”) modules and EVD type IGBT modules. In addition, the Group has initiated the R&D of several series of chips and modules with voltages of 1200V and 1700V, including Si IGBTs and SiC MOSFETs, which are expected to be launched in succession in the year 2024. The launch of a number of new products will enrich the Group's self-developed power semiconductor product range and further cover the needs of the electric vehicle, new energy power generation, SVG, servo motor and other markets. In terms of production capacity, the second module assembly and testing production line for IGBTs independently developed by the Group has been successfully put into production. Construction of the third and fourth module assembly and testing production lines is expected to commence trial production by the end of 2024.

In 2023, one of the Company's subsidiaries was selected as a national-level specialised and new “Small Technology Giant” enterprise and a listing reserve “Gold Seed” enterprise in Hubei Province, and three of its subsidiaries were selected as specialised and new enterprises at the provincial level. This will be conducive to promoting the Group to become stronger, better and larger, and to enhance the core competitiveness of the enterprise in a comprehensive manner, so as to play a leading and exemplary role.

On behalf of the Board, I would like to thank the shareholders of the Company (the “Shareholder(s)”), the stakeholders of the Company, the members of the Board and all our staff for their support and contributions. Together with the management team, I will continue to strive for better returns for the Shareholders and for greater corporate social value.

Xiang Jie
Chairman

Hong Kong, 22 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. Domestic and overseas market performance

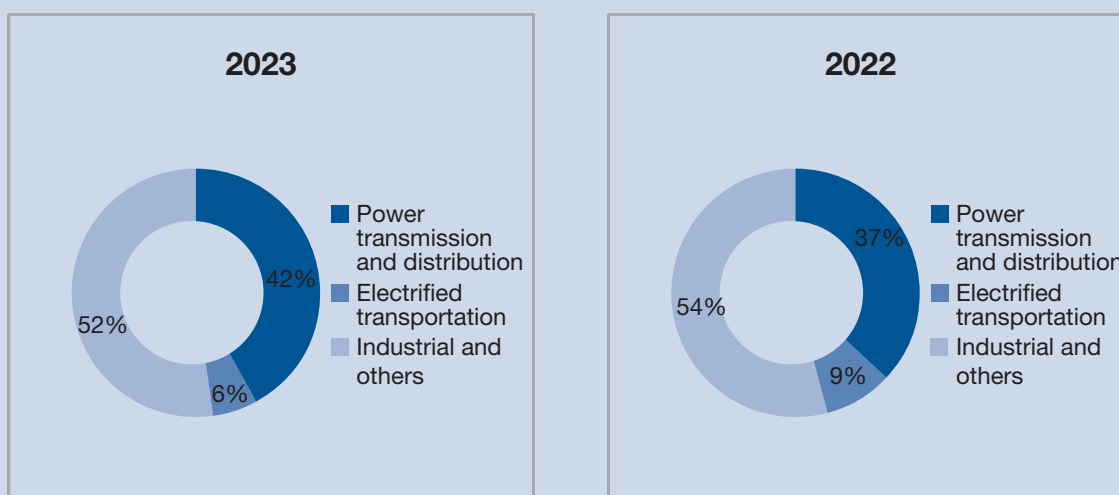
	For the year ended 31 December			
	2023		2022	
	Revenue (RMB' 000)	Gross profit margin	Revenue (RMB' 000)	Gross profit margin
Domestic market	987,067	31%	880,293	27%
Overseas market	67,635	38%	37,487	53%
Total	1,054,702	Average 32%	917,780	Average 28%

2. Domestic market performance

The products supplied by the Group are categorised into applied sectors, namely, power transmission and distribution, electrified transportation and industrial and others. The Group's performance in the domestic market is as follows:

Applied sectors	For the year ended 31 December			
	2023		2022	
	Revenue (RMB' 000)	Gross profit margin	Revenue (RMB' 000)	Gross profit margin
Power transmission and distribution	416,381	48%	322,671	41%
Electrified transportation	57,392	25%	80,721	15%
Industrial and others	513,294	19%	476,901	20%
Total	987,067	Average 31%	880,293	Average 27%

The proportion of revenue from each of the Group's business sectors in the domestic market is as follows:



MANAGEMENT DISCUSSION AND ANALYSIS

(a) Power transmission and distribution sector

The Group's performance in the power transmission and distribution sector is as follows:

	For the year ended 31 December		Change
	2023	2022	
	Revenue (RMB' 000)	Revenue (RMB' 000)	
Power transmission and distribution sector	416,381	322,671	29%
UHVDC transmission	192,721	128,852	50%
Flexible DC transmission	59,663	49,698	20%
Other power transmission and distribution	163,997	144,121	14%

UHVDC transmission and flexible DC transmission

The Group provides products such as anode saturation reactors, power capacitors, DC support capacitors for flexible DC transmission, system of online monitoring of smart grid and power semiconductor devices distributed by the Group to the sector of UHVDC transmission and the flexible DC transmission.

The "14th Five-Year Plan for National Economic and Social Development of the PRC and the Outline of Long-term Goals for 2035", the "New Power System Development Blue Paper", the "Carbon Peak and Carbon Neutrality" Action Plan of the State Grid Corporation, the "14th Five-Year Plan" of Southern Grid for Power Grid Development" and other policies and plans all purposed the enhancement of construction of clean energy delivery channels such as ultrahigh voltage transmission projects.

In 2023, a total of four ± 800 KV UHVDC transmission projects, namely "Jinshang to Hubei", "Longdong to Shandong", "Ningxia to Hunan" and "Hami to Chongqing", have commenced in succession. In the above projects, the Group has signed contracts for power capacitors with an aggregate amount of approximately RMB230 million, anode saturation reactors with an aggregate amount of approximately RMB170 million and a small number of orders for system of online monitoring of smart grid. As a result of the signing of the above contracts and delivery of some of the products, the Group's revenue in this sub-sector increased by approximately 50% as compared to 2022.

In 2023, the Group mainly delivered products ordered for use in the field of flexible DC transmission for the Hangzhou 220kV flexible low-frequency transmission demonstration project and the Yangjiang V and VII offshore wind farms with centralised transmission of sea cables. As a result, the Group's revenue from this sub-sector increased by approximately 20% as compared to 2022.

Other power transmission and distribution

The Group provides products such as system of online monitoring of smart grid and power capacitors to other power transmission and distribution sub-sector.

In 2023, the Group continued to maintain its advantages in the tender procurement for the supply of high-voltage power capacitors from State Grid Corporation of China, winning all of the six tender procurements of transformer equipment for transmission and substation projects. As a result, the Group's revenue in this sub-sector increased by approximately 14% as compared to 2022.

(b) Electrified transportation sector

The Group's performance in the electrified transportation sector is as follows:

	For the year ended 31 December		Change
	2023	2022	
	Revenue (RMB' 000)	Revenue (RMB' 000)	
Electrified transportation sector	57,392	80,721	-29%
Rail transportation	48,212	45,913	5%
Electric vehicles	7,356	26,433	-72%
Other transportation	1,824	8,375	-78%

MANAGEMENT DISCUSSION AND ANALYSIS

Rail transportation

The Group provides a wide range of power electronic components for traction converter systems to the manufacturers of rail transit vehicle equipment; and products such as power quality control devices and automatic cross-phase intelligent switches for electrified railways to the manufacturers of rail transportation power supply system.

In the first half of 2023, as a result of the increase in sales from the manufacturers of rail transit vehicle equipment, the Group's revenue from this sub-sector increased by 45% as compared to the same period of 2022. However, due to a slight increase in sales in the second half of 2023, the Group's revenue in this sub-sector increased by approximately 5% as compared to 2022.

Electric vehicles

The Group provides products such as self-developed IGBTs, SiC, laminated busbars and cell contacting systems to the electric vehicles sub-sector.

In 2023, the Group's revenue in this sub-sector decreased by 72% as compared to 2022 due to the decrease in the usage of ED type IGBT modules by customers and the increase in the usage of passenger car-specific IGBT modules, while the Group's already launched the passenger car-specific EVD type IGBT modules were still in the stage of customer verification.

In 2024, the Group will procure customer validation for the passenger car-specific EVD type IGBT modules and HEEV type SiC modules at full speed. The Group will seek to complete the customer validation as soon as possible to increase the sales of the products in the electric vehicle.

Other transportation

The Group provides power electronic components and devices to other transportation sub-sectors such as marine and aerospace in the PRC. As the business in this sub-sector was in the development stage, the projects and orders were not yet stable. The Group's revenue in this sub-sector decreased by 78% as compared to 2022.

(c) Industrial and others sector

The performance of the Group in the industrial and others sector is as follows:

	For the year ended 31 December		Change
	2023	2022	
	Revenue (RMB'000)	Revenue (RMB'000)	
Industrial and others sector	513,294	476,901	8%
Electrical equipment	368,049	341,682	8%
New energy power generation	126,438	122,722	3%
Scientific research institutes and others	18,807	12,497	50%

The Group supplies products including self-developed IGBTs, laminated busbars, power quality control devices, power capacitors and power semiconductor devices distributed by the Group to the manufacturers of electrical equipment in the industrial sector including electrical control and energy-saving equipment, energy storage equipment and new energy power generation equipment in the industrial sector, as well as to scientific research institutes and to customers in other sub-sector.

In 2023, given the increase in sales of self-developed IGBTs, laminated busbars and cells contact system in the new energy power generation and energy storage increased by 8% as compared to 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Overseas market performance

The Group's domestic and overseas subsidiaries are actively exploring overseas markets.

In 2023, the Group's products sold in overseas markets included laminated busbars, solid-state AC/DC switches, pulsed power supplies and impedance measuring devices.

	For the year ended 31 December		Change
	2023	2022	
	Revenue (RMB' 000)	Revenue (RMB' 000)	
Overseas market	67,635	37,487	80%
Products of domestic subsidiaries	3,718	3,634	2%
Products of overseas subsidiaries	63,917	33,853	89%

In 2023, the Group's revenue in the overseas market increased by approximately 80% as compared to 2022, mainly due to the increase in sales of marine solid-state DC circuit breakers (categorised as solid-state AC/DC switches), as well as the business expansion brought forth by the acquisition of KWx (now known as Astrolkwx) in the Netherlands.

4. Update on research and development ("R&D") and new business

The Group has always considered technological innovation to be the primary driver of its development and places great emphasis on the R&D of new technology and the R&D team building. The Group is committed to promote the rapid development of its technological capabilities and operating results by accelerating the exploration and the R&D of internationally leading power semiconductor and supporting device technologies, and international cutting-edge power electronics technologies.

In 2023, three subsidiaries of the Group were selected into the list of provincial "Specialised, Technologically-advanced and Innovative" small and medium-sized enterprises and one subsidiary was selected into the national list of "Specialised, Technologically-advanced and Innovative Little Giant" enterprises.

(a) Power semiconductor and its supporting devices

IGBTs and SiC

In 2023, the Group has already launched a wide range of new products such as 1700V IGBT and FRD chips, ST type IGBT modules, HEEV type SiC modules and EVD type IGBT modules.

In addition, the Group has initiated the R&D of several series of chips and modules with voltages of 1200V and 1700V, including Si IGBTs and SiC MOSFETs, which are expected to be launched in succession in the year 2024. The launch of a number of new products will enrich the Group's self-developed power semiconductor product range and further cover the needs of the electric vehicle, new energy power generation, SVG, servo motor and other markets.

Power electronic capacitors

The Group's DC support capacitors (categorised as power electronic capacitors) were used successfully in projects such as the experimental flexible DC grid demonstration project in Zhangbei (張北柔性直流電網實驗示範工程), 100% new energy new power system technology demonstration project in Guangshui, Suizhou (隨州廣水100%新能源新型電力系統科技示範工程), 220kV flexible low-frequency transmission demonstration project in Hangzhou (杭州220千伏柔性低頻輸電示範工程), and offshore wind power flexible DC transmission demonstration project in Rudong, Sanxia (三峽如東海上風電柔性直流輸電示範工程).

In 2023, the Group's DC support capacitors were used successfully in the overseas SVG relevant projects in Saudi Arabia, Chile, the Philippines and other countries. In January 2024, the Group successfully passed the national new product technology appraisal, laying a good foundation for the realisation of mass domestic production substitution.

(b) Cutting-edge power electronic technology products

Solid-state AC/DC switches

Not only did the Group's sales of products increase in the overseas marine markets, it also made breakthroughs in the domestic marine market: the world's first domestic intelligent unmanned system carrier "Zhuhai Yun", and the first domestic offshore operation and maintenance of wind power carriers "Zhi Cheng" and "Zhi Zhen".

System of online monitoring of smart grid

The Group's system of online monitoring of smart grid has not only been used successfully in a number of ultra-high voltage projects and intelligent power grid projects, such as "Longdong to Shandong ± 800 KV UHVDC" and "Sichuan and Chongqing 1000KV Ultra-high Voltage Power Transmission", but the Group has also launched a series of products for the wind power sector through in-depth technological cooperation with Wuhan University's School of Electrical Engineering.

FINANCIAL REVIEW

Revenue

The revenue increased by approximately 14.9% from approximately RMB917.8 million for the year ended 31 December 2022 to approximately RMB1,054.7 million for the year ended 31 December 2023, primarily due to the increase in revenue from the power transmission and distribution sector.

Cost of sales

The cost of sales increased by approximately 9.6% from approximately RMB656.4 million for the year ended 31 December 2022 to approximately RMB719.2 million for the year ended 31 December 2023, primarily due to the increase in revenue.

Gross profit and gross profit margin

The gross profit increased by approximately 28.3% from approximately RMB261.4 million for the year ended 31 December 2022 to approximately RMB335.5 million for the year ended 31 December 2023, primarily due to the increase in revenue and the increase in proportion of high gross profit margin products.

The gross profit margin increased from approximately 28.5% for the year ended 31 December 2022 to approximately 31.8% for the year ended 31 December 2023, primarily due to the increase in proportion of high gross profit margin products.

Other income and gains

The other income and gains decreased by approximately 3.4% from approximately RMB69.7 million for the year ended 31 December 2022 to approximately RMB67.3 million for the year ended 31 December 2023, primarily due to the decrease in the gain on foreign exchange.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 22.3% from approximately RMB69.2 million for the year ended 31 December 2022 to approximately RMB84.6 million for the year ended 31 December 2023, primarily due to the increase in expenses for the full-scale launch of marketing activities for the self-produced IGBT business.

Administrative expenses

The administrative expenses increased by approximately 18.9% from approximately RMB116.4 million for the year ended 31 December 2022 to approximately RMB138.4 million for the year ended 31 December 2023, primarily due to the increase in depreciation of assets and self-produced IGBT personnel.

R&D costs

The R&D costs increased by approximately 26.1% from approximately RMB90.1 million for the year ended 31 December 2022 to approximately RMB113.6 million for the year ended 31 December 2023, primarily due to the increase in R&D costs for products including self-produced IGBTs and energy storage cell contacting systems (儲能集成母排).

MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses and losses

The other expenses and losses decreased by approximately 8.0% from approximately RMB5.0 million for the year ended 31 December 2022 to approximately RMB4.6 million for the year ended 31 December 2023, primarily due to the decrease in amount of impairment receivable for the year.

Finance costs

The finance costs increased by approximately 44.7% from approximately RMB7.6 million for the year ended 31 December 2022 to approximately RMB11.0 million for the year ended 31 December 2023, primarily due to the increase in average balance of bank loan.

Profit before tax

The profit before tax increased by approximately 20.8% from approximately RMB38.9 million for the year ended 31 December 2022 to approximately RMB47.0 million for the year ended 31 December 2023, primarily due to the increase in revenue.

Income tax expense

The income tax expenses increased by approximately 38.4% from approximately RMB15.9 million for the year ended 31 December 2022 to approximately RMB22.0 million for the year ended 31 December 2023, primarily due to the increase in profit before tax.

Total comprehensive revenue for the year

The net profit margin, which is calculated as profit attributable to owners of the parent for the year divided by revenue, increased from approximately 2.6% for the year ended 31 December 2022 to approximately 3.0% for the year ended 31 December 2023.

The profit attributable to owners of the parent increased by approximately 31.3% from approximately RMB24.0 million for the year ended 31 December 2022 to approximately RMB31.5 million for the year ended 31 December 2023, primarily due to the increase in revenue.

The total comprehensive revenue attributable to owners of the parent increased by approximately 3.5% from approximately RMB25.4 million for the year ended 31 December 2022 to approximately RMB26.3 million for the year ended 31 December 2023, primarily due to the increase in revenue.

Inventories

The inventories increased by approximately 41.0% from approximately RMB163.1 million as at 31 December 2022 to approximately RMB229.9 million as at 31 December 2023, primarily due to the increase in stock at the end of the period.

The average inventory turnover days decreased from approximately 112 days for the year ended 31 December 2022 to approximately 107 days for the year ended 31 December 2023.

Trade and bills receivables

The trade and bills receivables increased by approximately 2.1% from approximately RMB798.2 million as at 31 December 2022 to approximately RMB814.6 million as at 31 December 2023, primarily due to the increase in revenue.

The average trade and bills receivables turnover days decreased from approximately 258 days for the year ended 31 December 2022 to approximately 255 days for the year ended 31 December 2023.

Trade and bills payables

The trade and bills payables increased by approximately 20.2% from approximately RMB250.8 million as at 31 December 2022 to approximately RMB301.5 million as at 31 December 2023, primarily due to the increase in stock at the end of the period.

The average trade and bills payables turnover days increased from approximately 118 days for the year ended 31 December 2022 to approximately 140 days for the year ended 31 December 2023, primarily due to the account period management.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sales of its products, bank borrowings and proceeds of issuing new shares.

The current ratio (current assets divided by current liabilities) decreased from approximately 4.3 as at 31 December 2022 to approximately 2.9 as at 31 December 2023, primarily due to the increase in bank borrowings.

As at 31 December 2023, the cash and bank balances denominated in Renminbi amounted to approximately RMB660.6 million (2022: approximately RMB429.0 million). The cash and cash equivalents increased by approximately 29.2% from approximately RMB618.8 million as at 31 December 2022 to approximately RMB799.3 million as at 31 December 2023, primarily due to the capital injection into a subsidiary, namely Sunking Pacific Semiconductor Technology (Zhejiang) Co., Ltd. (賽晶亞太半導體科技(浙江)有限公司) ("Sunking Semiconductor Zhejiang"), by its investors at the period.

As at 31 December 2023, the interest-bearing bank and other borrowings were denominated in Renminbi. The interest-bearing bank and other borrowings increased by approximately 162.1% from approximately RMB146.0 million as at 31 December 2022 to RMB382.7 million as at 31 December 2023, primarily due to the adjustment of capital structure.

The gearing ratio, measured on the basis of total interest-bearing bank and other borrowings divided by total equity, increased from approximately 7.6% as at 31 December 2022 to approximately 19.9% as at 31 December 2023, primarily due to the adjustment of capital structure.

The Group continues to implement prudent financial management policies and monitor its capital structure based on the ratio of total liabilities to total assets.

Foreign currency exposure

As most of the principal subsidiaries of the Company operate in the PRC, their functional currency is RMB. The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to hedge its exchange rate exposures.

Contingent liabilities

As at 31 December 2023, the Group had no significant contingent liabilities (31 December 2022: Nil).

Pledge of Group's assets

As at 31 December 2023, certain of the bills payable were secured by the pledge of the bank deposits amounting to approximately RMB28.8 million (2022: approximately RMB0.5 million) and the bills receivable amounting to approximately RMB21.0 million (2022: approximately RMB48.7 million), respectively.

As at 31 December 2023, bank loans in the amount of RMB17.0 million were secured by certain of the land use rights and buildings with net carrying amounts at 31 December 2023 of approximately RMB11.2 million and RMB35.6 million (2022: approximately RMB11.5 million and RMB37.1 million), respectively.

As at 31 December 2023, bank loans in the amount of RMB116.3 million were secured by certain of the land use rights and buildings, plant and machinery with net carrying amounts at 31 December 2023 of approximately RMB16.3 million and RMB252.9 million (2022: approximately RMB16.7 million and RMB163.5 million), respectively.

Events after reporting period

There were no important events affecting the Group which have occurred since 31 December 2023 and up to the Latest Practicable Date.

Significant investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and future plans for material investments or capital assets

Save as disclosed in this annual report and the consolidated financial statements, there were no significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2023. Save as disclosed in this annual report and the consolidated financial statements, there was no plan authorised by the Board for material investments or capital assets as at the date of the consolidated financial statements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Xiang Jie, aged 50, is the founder of the Group and was appointed as a Director in March 2010 and redesignated as an executive Director in May 2010. Mr. Xiang is the chairman of the Board and the chairman of the strategy and sustainability committee, Mr. Xiang is also the director of New Excel Holdings Limited, the director of Sunking Pacific Limited, the executive director of Jiashan Sunking Power Equipment Technology Co., Ltd. (嘉善華瑞賽晶電氣設備科技有限公司) (“**Jiashan Sunking**”), the chairman of Sunking Semiconductor Zhejiang, the president of the board of directors of Astrol Electronic AG and the president of the board of directors of SwissSEM Technologies AG, all of which are subsidiaries of the Company. Mr. Xiang is primarily responsible for overall corporate strategy, planning and business development of the Group.

Mr. Xiang obtained a bachelor’s degree in international shipping management from the Shanghai Maritime University in the PRC in 1995 and a master’s degree in business administration from the Maastricht School of Management in the Netherlands in 1999. Mr. Xiang has extensive experience in trading and power electronics sectors.

Mr. Gong Renyuan, aged 53, joined the Group in 2002 and was appointed as a Director in March 2010 and redesignated as an executive Director in May 2010. Mr. Gong is the chief executive officer of the Company, the president of the Group and a member of the nomination committee. Mr. Gong is primarily responsible for overseeing overall business of the Group, including devising and implementing business and development strategies and targets.

Before joining the Group, Mr. Gong had accumulated over eight years of experience in business operations. Mr. Gong completed a programme in business English at the Beijing University of Technology in the PRC in 1993.

Mr. Gong is the spouse of Ms. Ren Jie, who is a member of the senior management of the Company.

Mr. Yue Zhoumin, aged 54, joined the Group in 2009 and was appointed as an executive Director in May 2010. Mr. Yue is a vice president of the Group. Mr. Yue is also the executive director and the manager of Beijing Sunking Power Electronics Technology Co., Ltd. (北京賽晶電力電子科技有限公司) and the executive director and the manager of Beijing Sunking Electronic Technology Co., Ltd. (北京華瑞賽晶電子科技有限公司), all of which are subsidiaries of the Company. Mr. Yue is primarily responsible for strategic planning and development of the Group, overall procurement process of the Group and daily operations of the procurement department.

Mr. Yue has extensive experience in corporate project management and fund raising in the capital market. Mr. Yue is highly experienced in strategic management and before joining the Group, he worked in the strategy division of COSCO SHIPPING Holdings Co., Ltd. (formerly known as China COSCO Holdings Company Limited), which is a company listed on the Stock Exchange (stock code: 1919), from 2005 to 2009.

Mr. Yue obtained a bachelor’s degree in economics from the Shanghai Maritime University in the PRC in 1994.

NON-EXECUTIVE DIRECTOR

Ms. Zhang Ling, aged 54, was appointed as a non-executive Director in December 2017. Ms. Zhang is a member of the strategy and sustainability committee.

Ms. Zhang is the managing director of China Reform Venture Capital Investment Management (Shenzhen) Ltd. (國新風險投資管理(深圳)有限公司) and the director and the general manager of Zhonghaiheng Industrial Development Co., Ltd. (中海恒實業發展有限公司). Ms. Zhang previously worked for Beijing Capital Group Co., Ltd. (北京首都創業集團有限公司) and China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司) and was responsible for merger restructuring and corporate realignment. Ms. Zhang also previously worked for Essence Securities Co., Ltd. (安信證券股份有限公司) and Huarong Securities Co., Ltd. (華融證券股份有限公司) and was responsible for the merger financing business, and presided over the completion of large-scale enterprise asset restructuring and integration of the industrial chain, merger of listed companies, reverse takeover and other projects. Ms. Zhang was a director of Tongling Nonferrous Metals Group Holdings Co., Ltd. (銅陵有色金屬集團控股有限公司) and a director of China Reform Health Management and Services Group Co., Ltd. (國新健康保障服務集團股份有限公司), which is a company listed on the Shenzhen Stock Exchange (stock code: 000503).

Ms. Zhang obtained a bachelor’s degree in precision instrument from the Tianjin University in the PRC in 1991 and a master’s degree from the Guanghua School of Management of the Peking University in the PRC in 2000.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Shimin, aged 65, was appointed as an independent non-executive Director in August 2010. Mr. Chen is the chairman of the audit committee and a member of the remuneration committee, the nomination committee and the strategy and sustainability committee.

Mr. Chen is a professor of accounting, the Zhuxiaoming Chair Professor of Accounting and the Director of Case Development Centre at the China Europe International Business School. Mr. Chen has extensive accounting teaching and research experience in the PRC and overseas.

Since December 2018, Mr. Chen has been serving as an independent director of Advanced Micro-Fabrication Equipment Inc. China (中微半導體設備(上海)股份有限公司), which is a company listed on the Shanghai Stock Exchange (stock code: 688012). Since February 2019, Mr. Chen has been serving as an independent non-executive director of Yincheng International Holding Co., Ltd., which is a company listed on the Stock Exchange (stock code: 1902). Since February 2019, Mr. Chen has been serving as an external supervisor of Postal Savings Bank of China Co., Ltd. (中國郵政儲蓄銀行股份有限公司), which is a company listed on the Shanghai Stock Exchange (stock code: 601658). Since January 2021, Mr. Chen has been serving as an independent director of China Guangfa Bank Co., Ltd. (廣發銀行股份有限公司).

From June 2015 to May 2021, Mr. Chen served as an independent director of Oriental Pearl Group Co., Ltd. (東方明珠新媒體股份有限公司), which is a company listed on the Shanghai Stock Exchange (stock code: 600637). From November 2016 to May 2021, Mr. Chen served as an independent director of Huafa Industrial Co., Ltd. Zhuhai (珠海華發實業股份有限公司), which is a company listed on the Shanghai Stock Exchange (stock code: 600325). From May 2019 to September 2022, Mr. Chen served as an independent director of J-Yuan Trust Co., Ltd. (建元信託股份有限公司) (formerly known as Anxin Trust Co., Ltd. (安信信託股份有限公司)), which is a company listed on the Shanghai Stock Exchange (stock code: 600816). From May 2020 to March 2023, Mr. Chen served as an independent director of China Fortune Land Development Co., Ltd. (華夏幸福基業股份有限公司), which is a company listed on the Shanghai Stock Exchange (stock code: 600340).

Mr. Chen is a management accountant registered in the United States, and a member of the Institute of Management Accountants of the United States. Mr. Chen obtained a bachelor's degree and a master's degree in economics from the Shanghai University of Finance and Economics in the PRC in 1982 and 1985, respectively, and obtained a doctoral degree in philosophy from the University of Georgia in the United States in 1992.

Mr. Zhang Xuejun, aged 58, was appointed as an independent non-executive Director in December 2016. Mr. Zhang is the chairman of the nomination committee and a member of the audit committee, the remuneration committee and the strategy and sustainability committee.

Since 2021, Mr. Zhang has been serving as a supervisor of Beijing Runan Construction Engineering Co., Ltd. (北京潤安建設工程有限公司). From 1986 to 1992, Mr. Zhang worked at the School of English and the School of Political Science and Law in the Capital Normal University (formerly known as the Beijing Normal College). From 1992 to 2000, Mr. Zhang served in the Municipal Party Committee of the Youth League in Beijing and the Heping Sub-district Office in the Chaoyang District in Beijing and successively assumed the positions of deputy office head and secretary to the Committee of the Party Work Committee. From 2000 to 2008, Mr. Zhang served in the Central Committee of the Chinese Communist Youth League and successively assumed the positions of deputy director of the Chinese Young Pioneers Business Development Centre deputy director of the Central Juvenile Department and the Centre Propaganda Department and director of the Central Juvenile Department of the Central Committee of the Chinese Communist Youth League, deputy director of the National Committee of Chinese Young Pioneers and member of the 16th Central Standing Committee of the Central Committee of the Chinese Communist Youth League. From 2008 to 2011, Mr. Zhang served as a deputy secretary (department level) to the Municipal Party Committee of Jiujiang in Jiangxi Province. From 2011 to 2014, Mr. Zhang served as a party secretary to and a director of the Foreign Affairs Office in Jiangxi Province. From 2014 to 2016, Mr. Zhang was a party member of and served as the secretary general to the Chinese Western Returned Scholars Association. From 2016 to 2017, Mr. Zhang served as a co-chief executive officer of Hsin Chong Group Holdings Limited, which was a company formerly listed on the Stock Exchange, and was primarily responsible for managing the business in the Mainland China. From 2017 to 2019, Mr. Zhang served as the vice general manager of China Communication Group (神州通信集團). From 2019 to 2021, Mr. Zhang served as the secretary to the Party Committee of Shunliban Information Service Co., Ltd. (順利辦信息服務股份有限公司), which is a company listed on the Shenzhen Stock Exchange (stock code: 000606).

Mr. Zhang obtained a bachelor's degree in philosophy from the Capital Normal University (formerly known as the Beijing Normal College) in the PRC in 1986. Mr. Zhang also completed an on-job postgraduate course at the Chinese Academy of Social Sciences in 1998. Subsequently, Mr. Zhang obtained an EMBA degree from the Cheung Kong Graduate School of Business in the PRC in 2006. Mr. Zhang studied in the doctoral programme in global finance at the PBC School of Finance of Tsinghua University in the PRC in 2017. Mr. Zhang obtained a doctoral degree in applied finance from the University of Geneva in Switzerland in 2019.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung Ming Shu, aged 48, was appointed as an independent non-executive Director in March 2017. Mr. Leung is the chairman of the remuneration committee and a member of the audit committee and the strategy and sustainability committee.

Since April 2021, Mr. Leung has been serving as the group chief financial officer and a member of the strategy committee of 58.com Inc. and as the managing partner in the 58 Industry Fund, where he is mainly responsible for overseeing the overall financial and legal functions and strategic investment of 58.com Inc.

Since February 2013, Mr. Leung has been serving as an independent non-executive director of Cabbeen Fashion Limited, which is a company listed on the Stock Exchange (stock code: 2030). Since January 2017, Mr. Leung has been serving as the founding and managing partner in Harmony Capital, which is a family office private equity fund with a focus on internet and consumer sectors in the PRC. Since November 2019, Mr. Leung has been serving as an independent non-executive director of Renrui Human Resources Technology Holdings Limited, which is a company listed on the Stock Exchange (stock code: 6919). Since July 2021, Mr. Leung has been serving as a non-executive director of GOGO HOLDINGS LIMITED, which is a company listed on the Stock Exchange (stock code: 2246). Since May 2022, Mr. Leung has been serving as an independent non-executive director of Infinities Technology International (Cayman) Holding Limited, which is a company listed on the Stock Exchange (stock code: 1961). Since December 2022, Mr. Leung has been serving as an independent non-executive director of Gala Technology Holding Limited, which is a company listed on the Stock Exchange (stock code: 2458).

From September 1998 to August 1999, Mr. Leung served as an auditor of PricewaterhouseCoopers. From October 1999 to December 2000, Mr. Leung served as a senior consultant of Arthur Andersen & Co.. From February 2003 to March 2006, Mr. Leung served as a senior manager in the mergers and acquisitions department and subsequently as the chief financial officer of CDC Corporation, which is a company formerly listed on the NASDAQ. From January 2008 to December 2012, Mr. Leung served as the chief financial officer of China ITS (Holdings) Co., Ltd., which is a company listed on the Stock Exchange (stock code: 1900). From June 2008 to February 2021, Mr. Leung served as an independent non-executive director of Comtec Solar Systems Group Limited, which is a company listed on the Stock Exchange (stock code: 712). From January 2013 to January 2017, Mr. Leung served as the chief financial officer of Visual China Group Co., Ltd., which is a company listed on the Shenzhen Stock Exchange (stock code: 000681). From February 2020 to April 2022, Mr. Leung served as an independent non-executive director of Cheer Holding, Inc. (formerly known as Glory Star New Media Group Holdings Limited), which is a company listed on the NASDAQ (stock code: CHR).

Mr. Leung has been a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants since February 2007 and June 2010, respectively. Mr. Leung obtained a first class honour bachelor's degree in accounting from the City University of Hong Kong in November 1998 and a master's degree in accounting from the Chinese University of Hong Kong in November 2001.

Ms. White Caige, aged 70, was appointed as an independent non-executive Director with effect in April 2024.

Ms. White has been working for ABB (China) Ltd. since 1995 for various positions and currently holds the position of senior consultant. From 1988 to 1991, Ms. White served as the chief representative in the office of the Hawker Siddeley Group in Beijing. From 1992 to 1994, Ms. White served as the Asia Pacific marketing and sales manager of Westinghouse Systems Limited in the United Kingdom. From 1994 to 1995, Ms. White served as the business development manager of the power generation department of ABB Switzerland.

Ms. White obtained a bachelor's degree in English from the Beijing Normal University in the PRC in 1978 and an EMBA degree from the China Europe International Business School in 1998.

COMPANY SECRETARY

Ms. He Lina, aged 45, joined the Group in 2008 and is the company secretary to the Company. Ms. He was appointed as a joint company secretary to the Company in April 2016 and was further appointed as the company secretary to the Company in April 2019. Ms. He is also the supervisor of Beijing Sunking Electronic Technology Co., Ltd. (北京華瑞賽晶電子科技有限公司), the supervisor of Zhejiang Jiashan Keneng Power Equipment Co., Ltd. (浙江嘉善科能電力設備有限公司) and the supervisor of Wuhan Langde Electric Co., Ltd. (武漢朗德電氣有限公司) ("**Wuhan Langde**"), all of which are subsidiaries of the Company.

Ms. He is an associate member of the Hong Kong Chartered Governance Institute (formerly known as the Hong Kong Institute of Chartered Secretaries) and the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. He has over 10 years of experience in overseeing regulatory compliance issues of a listed company.

Ms. He obtained a bachelor's degree in economic law from the China University of Political Science and Law in 2001 and a master's degree in corporate governance from the Hong Kong Metropolitan University (formerly known as the Open University of Hong Kong) in 2018.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Li Jinyan, aged 45, joined the Group in 2004 and is a vice president of the Group. Mr. Li is primarily responsible for sales and marketing of the Group's products. Mr. Li is also the chairman of Wuhan Langde, the executive director of Wuxi Sichuang Power Electronics Technology Co., Ltd. (無錫思創電力電子科技有限公司), the executive director and the general manager of Wuxi Sichuang Software Technology Co., Ltd. (無錫思創軟件科技有限公司) and a director of Sunking Semiconductor Zhejiang, all of which are subsidiaries of the Company.

Mr. Li obtained a bachelor's degree in automation from the University of Science and Technology Beijing in the PRC in 2004.

Ms. Ren Jie, aged 46, joined the Group in 2002 and is a vice president of the Group. Ms. Ren is primarily responsible for overall management of the human resources and administration department of the Group. Ms. Ren is also the supervisor of Jiashan Sunking, the supervisor of Beijing Sunking Power Electronics Technology Co., Ltd. (北京賽晶電力電子科技有限公司) and the supervisor of Wuxi Sunking Power Capacitor Co., Ltd. (無錫賽晶電力電容器有限公司), all of which are subsidiaries of the Company.

Ms. Ren completed a programme in English language at the Xi'an International Studies University (formerly known as the Xi'an Foreign Languages Institute) in the PRC in 1998. Ms. Ren obtained a master's degree in business administration from the Beijing Jiaotong University in the PRC in 2014.

Ms. Ren is the spouse of Mr. Gong Renyuan, who is the chief executive officer of the Company, the president of the Group and an executive Director.

Mr. Bo Xiangpeng, aged 39, joined the Group in 2010 and is the chief financial officer of Group. Mr. Bo was promoted to the financial controller of the Group in 2013 and was appointed as the chief financial officer of the Group in April 2016. Mr. Bo is also the executive director and the manager of Sunking Energy Technology(Jiaxing) Co., Ltd. (賽晶新能源科技(嘉興)有限公司) and Jiaxing Sunking Engineering Management Service Co., Ltd. (嘉興賽晶工程管理服務有限公司), the supervisor of Jiashan Sunking Capacitor Co., Ltd. (嘉善賽晶電容器有限公司), a director of Sunking Semiconductor Zhejiang and a director of Wuhan Langde, all of which are subsidiaries of the Company.

Mr. Bo is a non-practising member of the Chinese Institute of Certified Public Accountants. Mr. Bo has over 10 years of experience working in accounting and financing fields.

Mr. Bo obtained a bachelor's degree in business management from the Shandong University of Finance and Economics in the PRC in 2006 and a master's degree in business administration from the Nankai University in the PRC in 2008.

Mr. Michael Simon Geissmann, aged 46, joined the Group in 2008 and is a vice president of the Group. Mr. Geissmann is primarily responsible for the European business expansion of the Group. Mr. Geissmann is also the chief executive officer and a director of Astrol Electronic AG and a director of SwissSEM Technologies AG, all of which are subsidiaries of the Company.

Before joining the Group, Mr. Geissmann worked for ABB Schweiz AG, Semiconductors from 2004 to 2008 as a supply chain manager. Mr. Geissmann has extensive international business experience in power electronics.

Mr. Geissmann obtained a master's degree in information technology and electronic engineering from the Swiss Federal Institute of Technology in Zurich in Switzerland in 2003.

Note: Mr. Roland Villiger ceased to be a vice president of the Group in February 2023.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the Shareholders. The Company has adopted the Corporate Governance Code (the “**Corporate Governance Code**”) as set out in Appendix C1 (formerly Appendix 14) to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with the aim of maintaining and improving the standard of corporate governance practices. The Company has met the applicable code provisions set out in Part 2 of the Corporate Governance Code during the year ended 31 December 2023.

CORPORATE CULTURE

The Company attaches great importance to the construction and transmission of corporate culture, upholding the corporate mission of “promoting the development of green energy with technological innovation”, and taking “respect, innovation and transcendence” as the Company’s core values, pursuing excellence for a win-win future, in order to realise the Company’s vision of “becoming an international leading supplier of power semiconductor devices and system solutions”.

The Company focuses on two major business areas, namely power semiconductor and supporting device technologies, and emerging power electronic technologies. Through the recruitment of talents and technological innovation, the Company provides leading technology and products and promotes constant optimisation of energy technologies with an aim to construct a new energy based innovative power system, thereby promoting the development of green energy.

The Company respects the opinions and differences of customers, suppliers, partners, shareholders, investors, employees and other parties, and draws on innovative ideas to go beyond. At the same time, the Company balances the relationship of various aspects such as the environment and society, safeguards the quality strictly, provides excellent products and achieves a win-win situation with all parties through rational allocation and efficient utilisation of resources.

The Company believes that a good corporate culture can create a favourable corporate environment, build up awareness of compliance, improve the moral quality and responsibility consciousness of employees, form corporate cohesion and enhance corporate competitiveness. All Directors must act with integrity, lead by example, and promote the desired culture. The directors are also required to instill the corporate culture in all employees from the top down, and continually reinforce across the organisation values of acting lawfully, ethically and responsibly.

The Company adheres to a people-oriented approach and participates in the gradual improvement of its corporate culture system. The Company establishes and improves practical, open, fair and equitable rules and regulations to manage and regulate the behaviour of the employees and strengthen the leadership to set an example; improve the training courses on corporate culture and enrich the carriers of corporate culture, so that all employees can recognise and practice the corporate culture. The Company will also evaluate and adjust its corporate culture in a timely manner and integrate more content to keep pace with the times.

BOARD

(a) Composition

The composition of the Board reflects the necessary balance of skills and experience required for effective leadership and independence in the decision making of the Company. The Board ensures that the Directors devote sufficient time and make contributions to the Company that are commensurate with their role and Board responsibilities. The Board currently comprises three executive Directors, namely Mr. Xiang Jie (who is also the chairman of the Board), Mr. Gong Renyuan (who is also the chief executive officer of the Company) and Mr. Yue Zhounin; one non-executive Director, namely Ms. Zhang Ling; and four independent non-executive Directors, namely Mr. Chen Shimin, Mr. Zhang Xuejun, Mr. Leung Ming Shu and Ms. White Caige. The biographies of the Directors are set out under the section headed “Biographies of Directors and Senior Management” of this annual report.

During the year ended 31 December 2023, the Board at all times complied with the requirements relating to the respective retirement and re-election of one-third of the members of the board of listed companies. There were three independent non-executive Directors in the Board, representing approximately 42.9% of the Board members, among which two independent non-executive Directors possessed appropriate professional qualifications, or accounting or related financial management expertise. Therefore, the requirements under the Listing Rules in relation to board composition were fully complied with.

CORPORATE GOVERNANCE REPORT

The Directors are required to declare their underlying interests regularly and assess other Directors' personal interests in the Company to ensure that the members of the Board have no financial, business, family or other material/relevant relationship with each other, and to ensure that the independent non-executive Directors have fully complied with the requirements regarding the independence of an independent non-executive director as set out in Rule 3.13 of the Listing Rules.

Save as disclosed under the section headed "Biographies of Directors and Senior Management" of this annual report, there are no financial, business, family or other material/relevant relationships between members of the Board and between the chairman of the Board and the chief executive officer of the Company.

(b) Number of meetings and attendance

The Board holds meetings regularly to discuss the overall strategies, and operational and financial performance of the Group. The Directors can attend meetings in person or via electronic means. During the year ended 31 December 2023, a total of five meetings of Directors were held to review and approve the financial and operational results of the Group. The attendance record of the Directors at Board meetings and Shareholders' meetings during the year ended 31 December 2023 is set out below:

	Attended/Eligible to attend	
	Board meeting	Shareholders' meeting
Executive Directors		
Mr. Xiang Jie	5/5	1/1
Mr. Gong Renyuan	5/5	1/1
Mr. Yue Zhoumin	5/5	1/1
Non-executive Director		
Ms. Zhang Ling	3/5	1/1
Independent non-executive Directors		
Mr. Chen Shimin	5/5	1/1
Mr. Zhang Xuejun	5/5	1/1
Mr. Leung Ming Shu	5/5	1/1

At least 14 days' notice of convening the regular Board meeting is given to all Directors to invite them to participate in the discussion. All Directors are provided with relevant information on the matters to be discussed at the meeting no less than three days before the meeting to ensure that there is sufficient time for the Directors to review the information. Material matters or matters which may lead to conflict of interests will be dealt with during Board meetings instead of via circulation of written resolutions or by the committees of the Board.

(c) Responsibilities of the Board and management

The Board is responsible for leading and controlling the Company and collectively overseeing the Group's businesses, strategic decisions and financial performances. The Board has established the Company's purpose, values and strategy, and is satisfied that these and the Company's culture are aligned. The chairman of the Board is responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer is responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Major corporate matters which are specifically delegated by the Board to the senior management include preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant laws, rules and regulations.

To ensure that the Board has access to independent advice and information, the Company has put in place mechanisms including the Directors having independent access to meet the senior management of and the company secretary to the Company at any time, the right to seek independent professional advice at the Company's expenses, as well as invitations to all independent non-executive Directors to attend all Board meetings and relevant committee meetings. The Board reviews the implementation and effectiveness of these mechanisms on an annual basis.

CORPORATE GOVERNANCE REPORT

(d) Continuous professional development

In order to comply with the requirements of the code provision C.1.4 of the Corporate Governance Code, the Board's office regularly provides briefings to the Directors containing the latest laws and regulations on the Company's finance, business development and directors' responsibilities. Besides, all the Directors have received continuous professional development trainings in relation to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance") and the Listing Rules to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. The attendance record of the continuous professional development trainings during the year ended 31 December 2023 is set out below:

	Companies Ordinance	Training areas	
		Listing Rules	Anti-corruption
Executive Directors			
Mr. Xiang Jie	✓	✓	✓
Mr. Gong Renyuan	✓	✓	✓
Mr. Yue Zhumin	✓	✓	✓
Non-executive Director			
Ms. Zhang Ling	✓	✓	✓
Independent non-executive Directors			
Mr. Chen Shimin	✓	✓	✓
Mr. Zhang Xuejun	✓	✓	✓
Mr. Leung Ming Shu	✓	✓	✓

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All the Directors, including the independent non-executive Directors, are appointed for a term of three years and subject to retirement by rotation and eligible for re-election in accordance with the articles of association of the Company (the "Articles of Association") and the Listing Rules. At each annual general meeting, not less than one-third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Board is mainly responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer of the Company is mainly responsible for overseeing the overall business of the Group, including devising and implementing business development strategies and targets. Currently, Mr. Xiang Jie is the chairman of the Board and Mr. Gong Renyuan is the chief executive officer of the Company. During the year ended 31 December 2023, one meeting without the presence of executive Directors was held between the chairman of the Board and the independent non-executive Directors.

NON-EXECUTIVE DIRECTORS

The non-executive Directors (including the independent non-executive Directors) bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking lead in management issues involving potential conflict of interests and serving the committees of the Board as committee members, all non-executive Directors (including the independent non-executive Directors) make various contributions to the effective development of the Company. The term of appointment of the non-executive Directors is set out under the section headed "Directors' Service Contracts" of this annual report.

BOARD COMMITTEES

The Board has established four committees, namely the audit committee, the remuneration committee, the nomination committee and the strategy and sustainability committee, to supervise various matters of the Group. To establish effective communication channels between each of the committees and the management of the Group, the Company has established an internal coordination and support team to facilitate Directors' access to more independent and objective information.

(a) Audit committee

The audit committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The audit committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of such auditors; monitoring the integrity of financial statements, annual reports and accounts, interim reports and, (if prepared for publication) quarterly reports, and reviewing material financial reporting judgements therein; and reviewing the systems of financial control, internal control and risk management. The written terms of reference of the committee is in line with the Corporate Government Code and is published on the websites of the Company and the Stock Exchange.

The audit committee comprises three independent non-executive Directors who are Mr. Chen Shimin, Mr. Zhang Xuejun and Mr. Leung Ming Shu. The audit committee is chaired by Mr. Chen Shimin, who possesses the appropriate professional qualifications and extensive experience in and knowledge of finance and accounting as required under Rule 3.10 of the Listing Rules. All members of the audit committee hold the relevant industry and financial experience necessary to advise the Board on strategies and other related matters. None of the members of the audit committee is a former partner of or connected with the existing external auditor of the Company.

The audit committee held three meetings during the year ended 31 December 2023. During the meetings, the audit committee confirmed the appointment of Ernst & Young as the external auditor of the Company and fixed its remuneration, reviewed the procedures for internal control of the Group, and reviewed the resources, the standing within the Group and the effectiveness (focusing on independence, competence and responsibilities) of the internal audit function of the Group. The audit committee also reviewed the interim and annual results of the Group for the year ended 31 December 2023 and the auditor's report prepared by the external auditor in relation to accounting matters and any material findings during the audit. The audit committee was of the opinion that such financial statements and report complied with the applicable accounting policy standards and requirements and that adequate disclosures have been made. The attendance record of the meetings of the audit committee during the year ended 31 December 2023 is set out below:

Directors	Attended/Eligible to attend
Mr. Chen Shimin (<i>chairman of the audit committee</i>)	3/3
Mr. Zhang Xuejun	3/3
Mr. Leung Ming Shu	3/3

(b) Remuneration committee

The remuneration committee was established on 19 August 2010 with written terms of reference in accordance with the Listing Rules. The roles and functions of the remuneration committee are, among other things, to make recommendations on the remuneration package of the Directors and senior management, the execution of which is subject to the approval of the Board. In addition, the remuneration committee evaluates the performance of the senior management of the Company and determines the remuneration structure of the Company. The written terms of reference of the remuneration committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The remuneration committee comprises three independent non-executive Directors who are Mr. Leung Ming Shu, Mr. Chen Shimin and Mr. Zhang Xuejun. The remuneration committee is chaired by Mr. Leung Ming Shu.

The remuneration committee held two meetings during the year ended 31 December 2023. During the meetings, the remuneration committee made recommendation on the Directors' fees and the remuneration of the senior management. The attendance record of the meetings of the remuneration committee during the year ended 31 December 2023 is set out below:

Directors	Attended/Eligible to attend
Mr. Leung Ming Shu (<i>chairman of the remuneration committee</i>)	2/2
Mr. Chen Shimin	2/2
Mr. Zhang Xuejun	2/2

CORPORATE GOVERNANCE REPORT

Remuneration payable to senior management of the Company (excluding Directors) for the year ended 31 December 2023 is within the following bands:

	Number of individuals	
	2023	2022
RMB200,000 – RMB300,000	0	0
RMB300,001 – RMB400,000	0	0
RMB400,001 – RMB500,000	0	0
Above RMB500,000	6	6

Note: Mr. Roland Villiger ceased to be a vice president of the Group in February 2023.

(c) Nomination committee

The nomination committee was established on 19 August 2010. The roles and functions of the nomination committee are, among other things, to formulate the policies for the nomination of Directors for the Board's consideration and to implement the nomination policy approved by the Board, including reviewing Board composition annually, identifying eligible candidates for directorship, monitoring of the Directors' succession plans and assessing the independence of the independent non-executive Directors. The written terms of reference of the nomination committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The nomination committee comprises one executive Director who is Mr. Gong Renyuan, and two independent non-executive Directors who are Mr. Zhang Xuejun and Mr. Chen Shimin. The nomination committee is chaired by Mr. Zhang Xuejun.

The Board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the business of the Group. To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidates by the nomination committee.

The criteria to be applied in considering whether a candidate is qualified shall be whether he or she can contribute to the diversity of the Board and whether he or she can devote sufficient time and attention to carry out the following responsibilities:

- (i) participating in Board meetings to bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;
- (ii) taking the lead where potential conflict of interests arise;
- (iii) serving on the audit committee, the remuneration committee and the nomination committee (in the case of candidate for non-executive Director) and other relevant committees of the Board, if invited;
- (iv) bringing a range of business and financial experience to the Board, giving the Board and any committee of the Board on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in Board/committee meetings;
- (v) scrutinising the performance of the Group in achieving the predetermined corporate goals and objectives, and monitoring the reporting of performance;
- (vi) ensuring the committees of the Board on which he or she serves to perform their powers and functions conferred on them by the Board; and
- (vii) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

CORPORATE GOVERNANCE REPORT

If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with, among other things, 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. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an independent non-executive Director as required under Rule 3.10(2) of the Listing Rules.

The nomination committee held one meeting during the year ended 31 December 2023. During the meeting, the nomination committee reviewed the independence of the independent non-executive Directors, composition of the Board and the Board Diversity Policy. The attendance record of the meeting of the nomination committee during the year ended 31 December 2023 is set out below:

Directors	Attended/Eligible to attend
Mr. Zhang Xuejun (<i>chairman of the nomination committee</i>)	1/1
Mr. Gong Renyuan	1/1
Mr. Chen Shimin	1/1

(d) Strategy and sustainability committee

The investment committee was renamed as the strategy and sustainability committee on 28 December 2022 and is responsible for researching and reviewing development strategies, material investment decision and sustainable development of the Company and making recommendation to the Board.

The strategy and sustainability committee comprises one executive Director who is Mr. Xiang Jie, one non-executive Director who is Ms. Zhang Ling, and three independent non-executive Directors who are Mr. Chen Shimin, Mr. Zhang Xuejun and Mr. Leung Ming Shu. The strategy and sustainability committee is chaired by Mr. Xiang Jie.

The strategy and sustainability committee held three meetings during the year ended 31 December 2023.

The attendance record of the meeting of the strategy and sustainability committee during the year ended 31 December 2023 is set out below:

Directors Attended/Eligible to attend	Attended/Eligible to attend
Mr. Xiang Jie (<i>chairman of the strategy and sustainability committee</i>)	3/3
Ms. Zhang Ling	1/3
Mr. Chen Shimin	3/3
Mr. Zhang Xuejun	3/3
Mr. Leung Ming Shu	3/3

COMPANY SECRETARY

Ms. He Lina was appointed as the company secretary to the Company in April 2016. Ms. He is an employee of the Company and reports to the chairman of the Board and is responsible for advising the Board on corporate governance matters. Ms. He has confirmed that she had taken not less than 15 hours of relevant professional training during the year ended 31 December 2023.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for fulfilling corporate governance duties and responsibilities including:

- developing and reviewing the policies and practices of the Group on corporate governance;
- reviewing and monitoring the training and continuous professional development of the Directors and senior management of the Company;
- reviewing and monitoring the policies and practices of the Group in compliance with legal and regulatory requirements; and

CORPORATE GOVERNANCE REPORT

- (d) reviewing the Company's compliance with the Corporate Governance Code and disclosure in this corporate governance report.

MODEL CODE FOR DIRECTORS' 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 C3 (formerly Appendix 10) to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, the Directors complied with the required standards as set out in the Model Code during the year ended 31 December 2023.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

There was no change in the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the year ended 31 December 2023.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness and adequacy. The review covers all material controls, including financial, operational and compliance controls and risk management functions, for the purpose of preventing unauthorised use or sale of assets, ensuring the proper filing of accounting records and provision of reliable financial information for internal use or release, and ensuring that the applicable laws, rules and regulations are complied with. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board oversees the risk management and internal control systems of the Group through the audit committee on an ongoing basis. A review of the effectiveness and adequacy of the risk management and internal control systems of the Group has been conducted annually and the review covering the year ended 31 December 2023 was completed. The Board considered that the risk management and internal control systems of the Group during the review period were effective and adequate. The Board confirms that the Group has processes in place to identify, assess and manage the significant risks to the achievement of its strategic objectives.

The Company carries out the internal audit function through the audit department, which provides an analysis and independent appraisal of the effectiveness and adequacy of the risk management and internal control systems of the Group. The audit department of the Company conducted comprehensive annual audit on the internal control systems of the Group covering the year ended 31 December 2023 and submitted the "2023 Annual Report on Internal Control" for review by the Board.

During the year ended 31 December 2023, in addition to adhering to the existing stringent internal control measures, including the control on the separation of roles among incompatible positions, authorisation and approval control, accounting system control, property protection control, operational analysis control, raw material procurement control, budget control and quality control, the Company updated the "Office Management Regulations" and redefined the definition of "office travel" to ensure the Group's operations are conducted in a standardised and orderly manner.

The Company is aware of its disclosure obligations under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") (the "**Inside Information Provisions**") and the Listing Rules. In respect of the procedures for handling and disseminating inside information, the Group has implemented certain procedures, including informing directors and employees of any information required to be disclosed under Rule 13.09 of the Listing Rules, such as blackout periods and restrictions on dealing in securities, material events or projects, and any inside information required to be disclosed under the Inside Information Provisions should be announced immediately to guard against possible inside information handling errors within the Group.

The Company has established whistleblowing policy for employees and those who deal with the Group to raise concerns about possible improprieties in any matter related to the Group. The Company has also established policy that promotes and supports anti-corruption laws and regulations. During the year ended 31 December 2023, all the Directors and employees of the Group received training in relation to anti-corruption.

DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2023 and of the Company's profit and cash flows for the year ended 31 December 2023 and ensuring that such statements are prepared in accordance with the statutory requirements and applicable accounting standards.

AUDITOR'S REMUNERATION AND AUDITOR-RELATED MATTERS

Ernst & Young has been appointed as the external auditor of the Company since 2012. In 2023, the Company accepted the annual audit fee of RMB1.7 million proposed by Ernst & Young. The relevant selection, appointment and resignation procedures for accounting firms have been reviewed and approved by the audit committee and the Board.

The statement of the external auditor of the Company about its reporting responsibilities for the financial statements is set out under the section headed "Independent Auditor's Report" on pages 37 to 40 of this annual report. During the year ended 31 December 2023, other than the audit fee, RMB0.70 million was paid to Ernst & Young for its performance of interim review.

DIVERSITY

(a) Board diversity

The Board has formulated the Board Diversity Policy to improve the standard of management through achieving diversity of the Board in terms of management skills, experience and perspectives, and thereby enhancing the quality of the management and the performance of the Group. The Board Diversity Policy requires that the appointment of Board members should be based on the talents of the candidates. Factors including diversity in age, gender, education and cultural background, professional expertise, industry experience and independence should also be considered and assessed during the selection process to ensure diversity. The Board reviews the implementation and effectiveness of the Board Diversity Policy through the nomination committee and reports in the corporate governance report of the Company on an annual basis. The nomination committee will also review the Board Diversity Policy and make revision recommendations to the Board when necessary. The Board considers that it has made progress on achieving diversity of the Board by including members of different genders, education background and professional qualifications.

The Board reviewed the implementation and effectiveness of the Board Diversity Policy during the year ended 31 December 2023 and considered that such policy was effective in upholding the diversity of the Board. With the appointment of Ms. White Caige as an independent non-executive Director on 1 April 2024, the proportion of female in the Board has now reached 25%, which has achieved the measurable target of gender diversity of the Board. The Board will continue to seize the opportunity to increase the proportion of female members of the Board when selecting and recommending suitable candidates for the Board in accordance with the Board Diversity Policy, in an effort to enhance the level of diversity of the Board.

(b) Employee diversity

As at 31 December 2023, the Group employed 834 employees (including three executive Directors, four senior management and one company secretary), among which 511 were male and 323 were female. The Company recruits on the basis of merit and non-discrimination. Given the ratio of male employees to female employees of approximately 6:4, the Board considered that gender diversity of workforce had been achieved and was not aware of any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

(a) Convening Shareholders' meetings and proposing procedures

Pursuant to the Articles of Association, any Shareholder holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company as at the date of putting forward requisition has rights to call for extraordinary general meeting to address any issue set out in the relevant requisition by sending to the Board or the company secretary to the Company at 9-A, KongGangRongHuiYuan, Yuhua Road, Zone B, Airport Industrial Zone, Shunyi District, Beijing, PRC a written requisition any time and the extraordinary general meeting shall be held within two months of the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/itself (themselves) may convene such meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to hold such meeting shall be reimbursed to the requisitionist(s) by the Company.

(b) Making enquiries to the Board

The Shareholders who would like to make enquiries regarding the Company may send such enquiries to the Board by email to ir@sunking-tech.com.

INVESTOR RELATIONS

(a) Constitutional documents

In order to bring the memorandum of association and the articles of association of the Company in line with the amendments made to the applicable laws of the Cayman Islands and the Listing Rules and to incorporate certain housekeeping amendments, the Company adopted a new set of memorandum of association and articles of association on 15 June 2022.

(b) Shareholders' communication

The Company and the Board recognise the importance of ensuring timely, transparent and accurate communications between the Company, the Shareholders and other stakeholders, including potential investors. The Company has adopted the Shareholders' Communication Policy, the implementation and effectiveness of which is reviewed by the Board on an annual basis, to communicate information to the Shareholders and other stakeholders of the Company mainly through the Company's interim report, annual report, quarterly reports (if applicable), general meetings and corporate newsletters and publications published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sunking-tech.com).

The Company encourages two-way communications with its institutional and private investors. Extensive information about the Group's business is provided in the annual report and the interim report sent to the Shareholders. The Company will meet with investors after the announcement of financial results to explain the business, performance and future plans of the Company in order to strengthen the public's understanding of the Company. The annual general meetings provide a platform for direct communication between the Board and the Shareholders. The Company communicates with the media regularly, discloses financial and other information of the Group and its operation to the public to promote effective communication.

The Board is satisfied with the implementation and effectiveness of the Shareholders' Communication Policy given the above means of communication adopted by the Company during the year ended 31 December 2023.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are manufacture and trading of power electronic components.

Details of the principal activities of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements.

FAIR REVIEW OF BUSINESS

A fair review of the business of the Group as well as a discussion and analysis of the Group's performance during the year ended 31 December 2023 and the material factors underlying its financial performance are set out in the chairman's statement on page 3 of this annual report and under the section headed "Management Discussion and Analysis" on pages 5 to 11 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are disclosed in note 27 to the consolidated financial statements.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchase by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposure.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector.

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 projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and lease liabilities. In addition, banking facilities have been put in place for contingency purposes.

For further details of the principal risks and uncertainties, please refer to note 39 to the consolidated financial statements.

REPORT OF THE DIRECTORS

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2023 and its financial position as at that date are set out in the consolidated financial statements on pages 41 to 43 of this annual report.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2023 (2022: Nil).

Dividend policy

(a) Purpose

The dividend policy aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profit, as dividends to the Shareholders.

(b) Principles and guidelines

- (i) The Board adopts the policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as the Shareholder value.
- (ii) The Company does not have any pre-determined payout ratio.
- (iii) The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the provisions of the Articles of Association and all applicable laws and regulations and the factors set out below.
- (iv) The Board shall also take into account the following factors of the Company and its subsidiaries when considering the declaration and payment of dividends:
 - (A) financial results;
 - (B) cash flow position;
 - (C) business conditions and strategies;
 - (D) future operations and income;
 - (E) capital requirements and budgets;
 - (F) interests of the Shareholders;
 - (G) any restrictions on payment of dividends; and
 - (H) any other factor that the Board deems relevant.
- (v) Depending on the financial conditions of the Company and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period;
 - (A) interim dividend;
 - (B) final dividend;
 - (C) special dividend; and
 - (D) any distribution of profits that the Board may deem appropriate.
- (vi) Any final dividend for a financial year will be subject to Shareholders' approval.
- (vii) The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.
- (viii) Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association.

(c) Review of the policy

The Board will review the dividend policy as appropriate from time to time.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 112 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2023 are set out in note 13 to the consolidated financial statements.

EVENTS AFTER REPORTING PERIOD

There were no important events affecting the Group which have occurred since 31 December 2023 and up to the Latest Practicable Date.

SHARE OPTION SCHEMES

Prior to the listing of the shares of the Company (the “**Share(s)**”) on the Stock Exchange (the “**Listing**”), the Company conditionally adopted a share option scheme (the “**2010 Share Option Scheme**”) on 23 September 2010 which became effective and unconditional upon the Listing. The purpose of the 2010 Share Option Scheme is to enable the Group to grant share options to the Eligible Participants (as defined in the section headed “Share Option Scheme” of the prospectus of the Company dated 30 September 2010) as rewards or incentives for their contribution to the Group.

The 2010 Share Option Scheme was terminated on 3 June 2020 such that no further share options could be offered but in all other respects the provisions of the 2010 Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any share option granted prior to the termination. Prior to the termination, the Board might, at its absolute discretion, offer share options to the Eligible Participants to subscribe for the Shares at an exercise price and subject to the terms of the 2010 Share Option Scheme. The total number of Shares which may be issued upon the exercise of all share options granted under the 2010 Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 136,604,000 Shares, representing 10% of the total number of Shares in issue upon the Listing. As at the Latest Practicable Date, the total number of Shares available for issue under the 2010 Share Option Scheme was 5,670,000 Shares, representing approximately 0.4% of the total number of Shares in issue as at the date of this annual report (assuming no Shares are issued or repurchased from the Latest Practicable Date to the date of this annual report).

The total number of Shares issued and to be issued upon the exercise of the share options granted to each Eligible Participant under the 2010 Share Option Scheme and any other schemes of the Group (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. Under the 2010 Share Option Scheme, each share option has a 10-year exercise period unless otherwise determined by the Board. There is no minimum period for which a share option must be held before it can be exercised unless otherwise determined by the Board and specified in the offer. HK\$1 shall be payable on acceptance of the share options within such time as may be specified in the offer, which shall not be later than 21 days from the date on which the share options are offered.

The exercise price shall be at the discretion of the Directors, provided that it shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date on which the share options are offered;
- (b) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date on which the share options are offered; and
- (c) the nominal value of a Share.

REPORT OF THE DIRECTORS

Details of movements in the share options granted under the 2010 Share Option Scheme during the year ended 31 December 2023 and outstanding share options as at the beginning and the end of the year are set out below:

Grantees	Date of grant	Number of share options					outstanding as at 31 December 2023	Exercise price per share (HK\$)	Weighted average closing price of the Shares immediately before the date of exercise (HK\$ per share)	Vesting period	Exercisable period
		outstanding as at 1 January 2023	granted during the year/ period	exercised during the year/ period	lapsed during the year/ period	cancelled during the year/ period					
Employees in aggregate	1 April 2020	8,218,000	-	(2,098,000)	(450,000)	-	5,670,000	1.10	1.70	One year from the date of grant	1 April 2021 to 31 March 2026
Total		8,218,000	-	(2,098,000)	(450,000)	-	5,670,000				

Further details of the 2010 Share Option Scheme are set out in note 30 to the consolidated financial statements.

The Company conditionally adopted a new share option scheme (the “**2020 Share Option Scheme**”) and conditionally terminated the 2010 Share Option Scheme pursuant to the shareholders’ approval obtained in the general meeting of the Company held on 21 May 2020. The 2020 Share Option Scheme and the termination of the 2010 Share Option Scheme became effective on 3 June 2020. The purpose of the 2020 Share Option Scheme is to enable the Company to grant share options to the following participants (the “**Eligible Participant(s)**”) as incentives or rewards for their contribution to the Group:

- (a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any subsidiary or any entity in which any member of the Group holds any equity interest (the “**Invested Entity**”);
- (b) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- (c) any supplier of goods to any member of the Group or any Invested Entity;
- (d) any customer of any member of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and
- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity,

and, for the purposes of the 2020 Share Option Scheme, the offer may be made to any company wholly-owned by one or more Eligible Participants.

Despite the above definition of Eligible Participants, the Company does not intend to grant share option to any Eligible Participant that does not come under the definition of “eligible participant” in Chapter 17 of the Listing Rules.

The Board may, at its absolute discretion, offer share options to the Eligible Participants to subscribe for the Shares at an exercise price and subject to the terms of the 2020 Share Option Scheme. The total number of Shares which may be issued upon the exercise of all share options to be granted under the 2020 Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 163,083,100 Shares, representing 10% of the total number of Shares in issue as at the date of approval of the 2020 Share Option Scheme. As at the Latest Practicable Date, the total number of Shares available for issue under the 2020 Share Option Scheme was 163,083,100 Shares, representing approximately 10.2% of the total number of Shares in issue as at the date of this annual report (assuming no Shares are issued or repurchased from the Latest Practicable Date to the date of this annual report).

REPORT OF THE DIRECTORS

The total number of Shares issued and to be issued upon the exercise of the share options granted or to be granted to each Eligible Participant under the 2020 Share Option Scheme and any other schemes of the Group (including both exercised and outstanding share options) in any 12-month period shall not exceed 1% of the Shares in issue. The 2020 Share Option Scheme will remain in force for a period of 10 years. Under the 2020 Share Option Scheme, each share option has a 10-year exercise period unless otherwise determined by the Board. There is no minimum period for which a share option must be held before it can be exercised unless otherwise determined by the Board and specified in the offer. HK\$1 shall be payable on acceptance of the share options within such time as may be specified in the offer, which shall not be later than 21 days from the date on which the share options are offered.

The exercise price shall be at the discretion of the Directors, provided that it shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the share options are offered;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the share options are offered; and
- (c) the nominal value of a Share.

As no share option had been granted under the 2020 Share Option Scheme since the adoption and during the year ended 31 December 2023, the number of share options available for grant under the 2020 Share Option Scheme at 1 January 2023 and 31 December 2023 were both 163,083,100.

RESERVES

Details of the movements in the reserves of the Group during the year ended 31 December 2023 are set out in the consolidated statement of changes in equity on page 44 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act of the Cayman Islands (the "**Companies Act**"), amounted to approximately RMB390.0 million (31 December 2022: approximately RMB400.1 million), of which final dividend has not been proposed for the year ended 31 December 2023. In addition, under the Companies Act, the amount of approximately RMB390.0 million in the share premium account of the Company as at 31 December 2023 (31 December 2022: RMB400.1 million) was distributable to the Shareholders (subject to the provisions of the Articles of Association), provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend, if any, is proposed to be paid. The Company's share premium account may be distributed in the form of fully paid bonus Shares.

DIRECTORS

The Directors during the year ended 31 December 2023 and up to the Latest Practicable Date were as follows:

Executive Directors

Mr. Xiang Jie
Mr. Gong Renyuan
Mr. Yue Zhoumin

Non-executive Director

Ms. Zhang Ling

Independent Non-executive Directors

Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu
Ms. White Caige (appointment effective on 1 April 2024)

In accordance with Articles 83(3) and/or 84(1) of the Articles of Association, Mr. Xiang Jie, Mr. Yue Zhoumin, Ms. Zhang Ling and Ms. White Caige will retire by rotation and be eligible to offer themselves for re-election as the Directors at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

The Company has received from each independent non-executive Director an annual confirmation of his independence from the Group, and as at the Latest Practicable Date, the Company still considered them to be independent pursuant to Rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Company are set out under the section headed “Biographies of Directors and Senior Management” of this annual report.

DIRECTORS’ SERVICE CONTRACTS

The executive Directors, namely Mr. Xiang Jie, Mr. Gong Renyuan and Mr. Yue Zhoumin, were first appointed for a term of three years commencing on the date of the Listing. Mr. Xiang Jie subsequently entered into supplemental service agreements dated 1 June 2012, 1 June 2015, 1 June 2018 and 1 June 2021 under which his term of office was extended for three years from the date of the respective supplemental service agreements. Mr. Gong Renyuan subsequently entered into supplemental service agreements dated 1 June 2013, 1 June 2016, 1 June 2019 and 1 June 2022 under which his term of office was extended for three years from the date of the respective supplemental service agreements. Mr. Yue Zhoumin subsequently entered into supplemental service agreements dated 28 May 2014, 28 May 2017, 28 May 2020 and 28 May 2023 under which his term of office was extended for three years from the date of the respective supplemental service agreements.

The non-executive Director, namely Ms. Zhang Ling, was first appointed for a term of three years commencing on 4 December 2017. Ms. Zhang Ling subsequently executed a supplemental appointment letter dated 4 December 2020 and 4 December 2023 under which her term of office was extended for three years from the date of the supplemental appointment letter.

The independent non-executive Directors, namely Mr. Chen Shimin, Mr. Zhang Xuejun, Mr. Leung Ming Shu and Ms. White Caige, were first appointed for a term of three years commencing on 19 August 2010, 19 December 2016, 24 March 2017 and 1 April 2024, respectively. Mr. Chen Shimin subsequently executed supplemental appointment letters dated 28 May 2014, 28 May 2017, 28 May 2020 and 28 May 2023 under which his term of office was extended for three years from the date of the respective supplemental appointment letters. Mr. Zhang Xuejun subsequently executed supplemental appointment letters dated 19 December 2019 and 19 December 2022 under which his term of office was extended for three years from the date of the supplemental appointment letter. Mr. Leung Ming Shu subsequently executed supplemental appointment letters dated 24 March 2020 and 24 March 2023 under which his term of office was extended for three years from the date of the respective supplemental appointment letters.

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

DIRECTORS’ REMUNERATION

The Board has the general power of determining the Directors’ remuneration, subject to authorisation of the Shareholders in the annual general meeting each year. The Directors are also entitled to participate in the 2020 Share Option Scheme. The remuneration of the executive Directors is subject to review by the remuneration committee, and their remuneration is determined with reference to the Directors’ qualifications, experience, duties, responsibilities and performance and results of the Group. As for the non-executive Director and the independent non-executive Directors, their remuneration is determined by the Board upon recommendation by the remuneration committee. Details of the emoluments of the Directors are set out in note 8 and the five highest paid individuals are set out in note 9 to the consolidated financial statements.

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

During the year ended 31 December 2023 and at the end of the year ended 31 December 2023, no Director nor entity connected with any Directors was materially interested, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which any member of the Group was a party.

PERMITTED INDEMNITY

Under the Articles of Association, the Directors are indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expense whatsoever, which they or any of them incur as a result of any act or failure to act in carrying out their functions other than such liability (if any), that they may incur by reason of their own fraud or dishonesty. Such permitted indemnity provision has been in force for the year ended 31 December 2023. The Company has arranged appropriate liability insurance coverage for the Directors.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2023.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2023, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) Long positions in the Shares, underlying Shares and debentures of the Company

Name of Director	Nature of interest	Number of ordinary Shares held	Approximate percentage of interests in the Company ^(Note 3)
Mr. Xiang Jie	Beneficial owner and interest in controlled corporation	383,458,347 ^(Note 1)	23.63%
Mr. Gong Renyuan	Beneficial owner and interest of spouse	19,360,000 ^(Note 2)	1.19%
Mr. Yue Zhoumin	Beneficial owner	2,000,000	0.12%

Notes:

- As at 31 December 2023, among the 383,458,347 Shares, 45,130,000 Shares were directly held by Mr. Xiang Jie and the remaining 338,328,347 Shares were directly held by Max Vision Holdings Limited. As at 31 December 2023, Max Vision Holdings Limited was wholly-owned by Jiekun Limited, which was wholly-owned by Sapphire Skye Holdings Limited. As at 31 December 2023, Sapphire Skye Holdings Limited was wholly-owned by Zedra Trust Company (Singapore) Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries.
- As at 31 December 2023, among the 19,360,000 Shares, 15,060,000 Shares were held by Mr. Gong Renyuan and the remaining 4,300,000 Shares were held by Ms. Ren Jie, who is the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 4,300,000 Shares held by Ms. Ren Jie.
- There were 1,622,790,000 Shares in issue as at 31 December 2023.

(b) Short positions in the Shares, underlying Shares and debentures of the Company

None of the Directors or the chief executives of the Company had any short position in the Shares, underlying Shares and debentures of the Company or any associated corporation as at 31 December 2023.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2023 and up to the Latest Practicable Date were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor child, or were any such rights exercised by them, or was any member of the Group a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

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

As at 31 December 2023, to the best knowledge of the Directors, the interests or short positions of the persons, other than a Director or a chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO, were as follows:

(a) Long positions in the Shares and underlying Shares

Name of substantial Shareholder	Nature of interest	Number of ordinary Shares held	Approximate percentage of interests in the Company <i>(Note 3)</i>
Max Vision Holdings Limited	Beneficial owner	338,328,347 <i>(Note 1)</i>	20.85%
Jiekun Limited	Interest in controlled corporation	338,328,347 <i>(Note 1)</i>	20.85%
Sapphire Skye Holdings Limited	Nominee	338,328,347 <i>(Note 1)</i>	20.85%
Zedra Trust Company (Singapore) Limited	Trustee	338,328,347 <i>(Note 1)</i>	20.85%
Meng Fankun	Interest of spouse	383,458,347 <i>(Notes 1 and 2)</i>	23.63%

Notes:

- As at 31 December 2023, Max Vision Holdings Limited was wholly-owned by Jiekun Limited, which was wholly-owned by Sapphire Skye Holdings Limited. As at 31 December 2023, Sapphire Skye Holdings Limited was wholly-owned by Zedra Trust Company (Singapore) Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. As such, Jiekun Limited, Sapphire Skye Holdings Limited and Zedra Trust Company (Singapore) Limited were deemed under the SFO to be interested in the 338,328,347 Shares held by Max Vision Holdings Limited.
- Ms. Meng Fankun, who is the spouse of Mr. Xiang Jie, was deemed under the SFO to be interested in the 383,458,347 Shares in which Mr. Xiang Jie was interested.
- There were 1,622,790,000 Shares in issue as at 31 December 2023.

(b) Short positions in the Shares and underlying Shares

Save as disclosed above, as at 31 December 2023, the Company had not been notified of any short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept under section 336 of the SFO.

NON-COMPETITION UNDERTAKING BY MAX VISION HOLDINGS LIMITED AND MR. XIANG JIE

The Company has received annual confirmations from Max Vision Holdings Limited (being the single largest Shareholder) and Mr. Xiang Jie in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the aforesaid undertaking and are of the view that Max Vision Holdings Limited and Mr. Xiang Jie had complied with the non-competition undertaking during the year ended 31 December 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were 1,622,790,000 Shares in issue as at 31 December 2023.

For the year ended 31 December 2023, the Company repurchased 9,952,000 Shares on the Stock Exchange for a total purchase price (including relevant expenses) of approximately HK\$15,123,362. Details of the repurchase of such Shares are as follows:

Month of repurchase in 2023	Number of Shares repurchased	Purchase price per Shares		Total purchase price (Approximately) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
April	160,000	1.75	1.68	275,370
May	430,000	1.73	1.65	726,429
August	1,450,000	1.67	1.55	2,350,193
September	3,176,000	1.63	1.50	4,975,977
October	1,970,000	1.57	1.42	2,969,060
November	1,420,000	1.54	1.35	2,031,860
December	1,346,000	1.40	1.28	1,794,473

Among the 9,952,000 Shares repurchased in 2023, 9,636,000 Shares were cancelled in 2023 and the remaining 316,000 Shares were cancelled in 2024.

From the beginning of 2024 to the Latest Practicable Date, the Company repurchased 17,662,000 Shares on the Stock Exchange for a total purchase price (including relevant expenses) of approximately HK\$20,461,299. Details of the repurchase of such Shares are as follows:

Month of repurchase in 2024	Number of Shares repurchased	Purchase price per Share		Total purchase price (Approximately) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January	2,590,000	1.32	1.21	3,209,793
February	13,176,000	1.25	1.01	14,989,246
March	1,200,000	1.24	1.18	1,446,829
April (up to the Latest Practicable Date)	696,000	1.19	1.14	815,431

Among the 17,662,000 Shares repurchased in 2024, 15,766,000 Shares were cancelled and the remaining 1,896,000 Shares were not yet cancelled.

The abovementioned repurchases were made for the benefit of the Company and the Shareholders as a whole, with the aim of increasing the market price per Share and improving investor confidence in the Company.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

Unless otherwise required by the Stock Exchange, there were no provisions under the Articles of Association or the laws of the Cayman Islands (being the jurisdiction in which the Company is incorporated) which would oblige the Company to offer any pre-emptive right of new Shares on a pro-rata basis to the Shareholders.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2023, the Group entered into certain transactions with “related parties” as defined in the applicable accounting standards. Details of the related party transactions of the Company are set out in note 36 to the consolidated financial statements. Such related party transactions include the following connected transactions of the Company under the Listing Rules:

Related party transaction which constitutes connected transaction	Compliance with the Listing Rules
Compensation paid to key management personnel of the Group as set out in note 36(a) to the consolidated financial statements	These were fully exempt continuing connected transactions under Rule 14A.95 of the Listing Rules.

The loans in the amounts of RMB4.5 million, RMB4.9 million, RMB20,000 and RMB10,000 were advanced by Jiashan Sunking, which is a wholly-owned subsidiary of the Company, to Beijing Yaoting Tengyi Investment Partnership (Limited Partnership) (北京耀廷騰逸投資合夥企業(有限合夥)) (“Yaoting”), which is a joint venture owned as to approximately 99.99% by the Company and approximately 0.01% by an independent third party. As Yaoting is not a connected subsidiary (as defined in the Listing Rules), such related party transactions did not constitute connected transactions of the Company under Chapter 14A of the Listing Rules. On 26 December 2023, Yaoting became a subsidiary of the Group and the outstanding balances were eliminated in full on consolidation.

CONNECTED TRANSACTIONS

During the year ended 31 December 2023, the Group had not entered into any connected transaction that is subject to the annual reporting requirement under Chapter 14A of the Listing Rules.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2023, the Group employed 834 employees. Key components of the Group’s remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The employees are also entitled to participate in the 2020 Share Option Scheme. The Group conducts periodic reviews on the performance of its employees, and their salaries and bonuses are performance-based. The Group focuses on the establishment of an in-house management training and development system to meet the different needs of employees at all levels and enhance their skills through diversified training modes. The Group did not experience any significant problems with its employees or disruptions to its operations due to labour disputes, nor did it experience any difficulty in the recruitment and retention of experienced employees. The Group maintains a good relationship with its employees.

FOREIGN CURRENCY EXPOSURE

Details of the foreign currency exposure for the year ended 31 December 2023 are set out in note 39 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the Latest Practicable Date, at least 25% of the total number of Shares were held by the public.

SHARE CAPITAL

Details of the movements in the issued share capital of the Company for the year ended 31 December 2023 are set out in note 29 to the consolidated financial statements.

DONATIONS

For the year ended 31 December 2023, the Group made charitable donations (including in-kind donation) in the amount of RMB162,398 (2022: RMB112,000).

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2023, the Group's five largest suppliers accounted for approximately 53.9% (2022: approximately 33.7%) of the Group's total purchases. The Group's largest supplier accounted for approximately 31.8% (2022: approximately 25.3%) of the Group's total purchases.

During the year ended 31 December 2023, the Group's sales to its five largest customers accounted for less than 30% of the Group's total sales.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholders (who, to the best knowledge of the Directors, owns more than 5% of the number of Shares) has any interests in the Group's five largest suppliers.

EQUITY-LINKED AGREEMENTS

Save for the 2010 Share Option Scheme and the 2020 Share Option Scheme as disclosed under the section headed "Share Option Schemes" of this annual report, the Company had not entered into any equity-linked agreement during the year ended 31 December 2023.

REVIEW OF FINANCIAL STATEMENTS BY AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management accounting principles and practices adopted by the Group and discussed the auditing, risk management, internal control and financial reporting matters, including the review of the audited consolidated financial statements of the Group for the year ended 31 December 2023.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out on pages 16 to 24 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimise the impact of its activities on the environment. It is policy of the Group to promote clean operation and strive to making the most efficient use of resources in its operations, and minimising wastes and emission. The Group achieves this through actively re-designing its production activities and operation that encourage and promote recycling of resources, using environmental friendly raw materials and reviewing production operations constantly to ensure that the production processes are effective and efficient.

Further details of the environmental policies and performance of the Group are included in the environmental, social and governance report of the Company published separately on the website of the Company at www.sunking-tech.com under the "Investor Relations" section and the website of the Stock Exchange.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group adheres to people-oriented principle and offer reasonable treatment to employees. Meanwhile, it retains talents and constantly improves policies including remuneration and benefits, trainings and occupational health and safety with regular reviews and updates. The Group maintains sound relationship with its customers. In order to improve service quality, the Group has established a complaint management mechanism including complaints collection and analysis, and improvement recommendation. The Group maintains sound relationship with its suppliers, on which it conducts fair and strict inspection regularly.

REPORT OF THE DIRECTORS

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

Established in the Cayman Islands, the Company operates its principle business in the PRC, whereas the Shares are listed on the Stock Exchange. Accordingly, the establishment and operations of the Company shall be subject to the relevant laws, rules and regulations of the Cayman Islands, the PRC and Hong Kong. During the year ended 31 December 2023 and as of the Latest Practicable Date, the Group was in compliance with the relevant laws, rules and regulations of the Cayman Islands, the PRC and Hong Kong.

CLOSURE OF REGISTER

In order to establish the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Friday, 31 May 2024. The register of members of the Company will be closed from Monday, 3 June 2024 to Thursday, 6 June 2024, both days inclusive, during which period no transfer of Shares will be registered. The Shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2024 are entitled to attend and vote at the forthcoming annual general meeting.

AUDITOR

Ernst & Young retires and a resolution for its re-appointment as the auditor of the Company will be proposed at the forthcoming annual general meeting. There was no change in the auditor of the Company in the preceding three years.

PROSPECTS

Looking ahead, the “14th Five-Year Plan” and “15th Five-Year Plan” periods are the critical period and the window of opportunity to realise the strategic goal of “dual carbon”, as well as a golden development period for the energy technology revolution and the upgrading of the energy equipment industry. The upstream and downstream industries of new energy, such as DC transmission, electric vehicles, new energy power generation and industrial control, which the Group is targeting, have shown good development momentum. With the corporate mission of “promoting green energy development through technological innovation”, the Group will continue to strengthen its R&D team building, create innovative technologies and products, and seize the opportunities for industrial development brought about by the energy technology reform, so as to accelerate the growth of the Company’s business scale and operating results.

At present, many new flexible transmission projects are expected to commence, including the UHVDC transmission projects, such as “Shaanxi to Henan” and “Shaanxi to Anhui” projects, the flexible DC transmission or hybrid DC transmission projects, such as “Gansu to Zhejiang” and “Mengxi to Beijing-Tianjin-Hebei” projects, as well as the Hangzhou flexible low-frequency transmission project Phase II. With the demand for large-scale grid-connection of new energy sources and the rapid growth of electricity demand for electric vehicles, artificial intelligence and data centres, there is huge market potential for the renewal, upgrading and new construction of overseas power grids, which will bring vast market space for China’s power equipment to “go overseas”.

The Group’s self-developed power semiconductors have achieved excellent performance in customers’ applications and have been recognised and praised by customers due to their outstanding technological advantages and product quality. In 2024, the Group will continue to put in an all-out effort to promote its self-developed power semiconductor business by accelerating the R&D of various new products and capacity building, enhancing market coverage and penetration of module products and increasing the scale of export sales of the chips. The Group is confident in the development prospects of its semiconductor business.



To the shareholders of Sun.King Technology Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sun.King Technology Group Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 41 to 111, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**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.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sun.King Technology Group Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Recoverability of trade receivables</i>	
<p>Trade receivables constituted a significant portion of total assets as at 31 December 2023 and the Group was exposed to credit risks thereof. The Group recognises an allowance based on the expected credit loss (“ECL”) approach under IFRS 9 <i>Financial Instruments</i>. The measurement of ECL requires the application of significant judgement and estimate, such as the expected future cash flows and forward-looking factors specific to the debtors and the economic environment.</p> <p>Relevant disclosures are included in note 21 to the financial statements.</p>	<p>Our audit procedures included the understanding of the Group’s accounting policy of loss allowance for impairment of trade receivables.</p> <p>We assessed, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket. We assessed the management’s ECL allowance by examining the information used by management to form such judgement and estimate, including checking the accuracy of the ageing movement information, evaluating whether the loss rates are appropriately adjusted based on current economic conditions and forward-looking information.</p> <p>We evaluated the Group’s provision for trade receivables by reference to the Group’s subsequent collection of the trade receivables.</p> <p>We also assessed the adequacy of the disclosure in relation to the Group’s recoverability of trade receivables.</p>
<i>Provision for inventories</i>	
<p>Inventories contributed a significant portion of total assets as at 31 December 2023 and the Group was exposed to inventory obsolete and excess risks as a result of the technology innovation. The determination of provision is accordingly complex because it depends on the future net recoverable amounts.</p> <p>Relevant disclosures are included in note 20 to the financial statements.</p>	<p>Our audit procedures included the understanding of the Group’s accounting policy of provision for inventories.</p> <p>We performed stock count and observed the physical conditions of inventories.</p> <p>We performed the ageing analysis as well as turnover days during the year.</p> <p>We also re-calculated the impairment amounts of the inventories based on management’s methodology at year end.</p>

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sun.King Technology Group Limited
(Incorporated in the Cayman Islands with limited liability)

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 IFRSs issued by the IASB 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 HKSA's 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 HKSA's, 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.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Sun.King Technology Group Limited
(Incorporated in the Cayman Islands with limited liability)

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 Ng Siu Ki Ricky.

Ernst & Young
Certified Public Accountants
27/F., One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong
22 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
REVENUE	5	1,054,702	917,780
Cost of sales		(719,174)	(656,379)
Gross profit		335,528	261,401
Other income and gains, net	5	67,288	69,690
Selling and distribution expenses		(84,561)	(69,223)
Administrative expenses		(138,415)	(116,387)
Research and development costs		(113,588)	(90,064)
Other expenses and losses, net		(4,605)	(5,033)
Finance costs	7	(11,044)	(7,648)
Share of profits and losses of:			
A joint venture		(3,593)	(3,842)
Associates		(40)	(8)
PROFIT BEFORE TAX	6	46,970	38,886
Income tax expense	10	(22,008)	(15,859)
PROFIT FOR THE YEAR		24,962	23,027
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Fair value gains/(losses) on financial investments at fair value through other comprehensive income		(1,564)	2,970
Exchange differences on translation of foreign operations		(4,580)	(2,222)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		(6,144)	748
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		18,818	23,775
Profit/(loss) attributable to:			
Owners of the parent		31,547	23,986
Non-controlling interests		(6,585)	(959)
		24,962	23,027
Total comprehensive income/(loss) attributable to:			
Owners of the parent		26,342	25,448
Non-controlling interests		(7,524)	(1,673)
		18,818	23,775
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	12		
Basic		RMB1.94 cents	RMB1.47 cents
Diluted		RMB1.93 cents	RMB1.46 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	<i>13</i>	635,866	513,308
Investment properties	<i>14</i>	16,956	–
Right-of-use assets	<i>15 (a)</i>	56,468	59,361
Deposits for purchase of property, plant and equipment		13,424	42,601
Goodwill	<i>16</i>	5,689	6,878
Other intangible assets	<i>17</i>	73,746	71,560
Investment in a joint venture	<i>18</i>	–	9,846
Investment in associates	<i>18</i>	1,599	1,139
Contract assets	<i>21</i>	35,459	45,729
Deferred tax assets	<i>28</i>	4,816	3,120
Total non-current assets		844,023	753,542
CURRENT ASSETS			
Inventories	<i>20</i>	229,919	163,114
Trade and bills receivables	<i>21</i>	814,606	798,243
Contract assets	<i>21</i>	9,669	6,938
Prepayments, other receivables and other assets	<i>22</i>	39,486	36,036
Derivative financial instruments	<i>26</i>	5,993	7,443
Financial investments at fair value through other comprehensive income	<i>19</i>	55,192	101,755
Pledged deposits	<i>23</i>	39,265	10,784
Cash and cash equivalents	<i>23</i>	799,300	618,768
Total current assets		1,993,430	1,743,081
CURRENT LIABILITIES			
Trade and bills payables	<i>24</i>	301,529	250,837
Other payables and accruals	<i>25</i>	114,347	79,863
Contract liabilities	<i>25</i>	26,950	13,769
Lease liabilities	<i>15 (b)</i>	3,400	2,795
Interest-bearing bank and other borrowings	<i>27</i>	226,100	45,990
Tax payable		19,329	15,615
Total current liabilities		691,655	408,869
NET CURRENT ASSETS		1,301,775	1,334,212
TOTAL ASSETS LESS CURRENT LIABILITIES		2,145,798	2,087,754

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	<i>27</i>	156,600	100,000
Lease liabilities	<i>15 (b)</i>	5,958	8,249
Deferred income		59,541	63,218
Deferred tax liabilities	<i>28</i>	2,038	2,339
Total non-current liabilities		224,137	173,806
Net assets		1,921,661	1,913,948
EQUITY			
Equity attributable to owners of the parent			
Issued capital	<i>29</i>	139,081	139,768
Treasury shares	<i>29</i>	(378)	–
Reserves	<i>31</i>	1,708,946	1,691,251
Non-controlling interests		1,847,649 74,012	1,831,019 82,929
Total equity		1,921,661	1,913,948

Xiang Jie
Director

Yue Zhoumin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

Notes	Attributable to owners of the parent										Non-controlling interests	Total equity	
	Issued capital	Treasury shares	Share premium account	Share-based payment reserve	Capital redemption reserve	Deemed contribution reserve	Other reserve	Retained profits	Exchange fluctuation reserve	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	139,768	-	400,089	2,576	4,332	14,765	409,215	860,947	(673)	1,831,019	82,929	1,913,948	
Profit for the year	-	-	-	-	-	-	-	31,547	-	31,547	(6,585)	24,962	
Other comprehensive loss for the year:													
Fair value losses on financial investments at fair value through other comprehensive income	-	-	-	-	-	-	(1,564)	-	-	(1,564)	-	(1,564)	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(3,641)	(3,641)	(939)	(4,580)	
Total comprehensive income for the year	-	-	-	-	-	-	(1,564)	31,547	(3,641)	26,342	(7,524)	18,818	
Exercise of share options	29	186	-	2,502	(645)	-	-	-	-	2,043	-	2,043	
Shares repurchased	29	(873)	(378)	(12,561)	-	873	-	(873)	-	(13,812)	-	(13,812)	
Share-based payments	30	-	-	764	-	-	-	-	-	764	-	764	
Acquisition of non-controlling interests	-	-	-	-	-	-	1,293	-	-	1,293	(1,393)	(100)	
Transfer from retained profits	31	-	-	-	-	-	10,757	(10,757)	-	-	-	-	
At 31 December 2023	139,081	(378)	390,030*	2,695*	5,205*	14,765*	419,701*	880,864*	(4,314)*	1,847,649	74,012	1,921,661	
At 1 January 2022	140,377	-	412,475*	2,911*	3,443*	14,765*	323,860*	846,093*	889*	1,744,813	54,740	1,799,553	
Profit for the year	-	-	-	-	-	-	-	23,986	-	23,986	(959)	23,027	
Other comprehensive income/(loss) for the year:													
Fair value gains on financial investments at fair value through other comprehensive income	-	-	-	-	-	-	3,024	-	-	3,024	(54)	2,970	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(1,562)	(1,562)	(660)	(2,222)	
Total comprehensive income for the year	-	-	-	-	-	-	3,024	23,986	(1,562)	25,448	(1,673)	23,775	
Capital injection from non-controlling shareholders	-	-	-	-	-	-	74,088	-	-	74,088	29,862	103,950	
Exercise of share options	29	280	-	3,996	(1,148)	-	-	-	-	3,128	-	3,128	
Shares repurchased and cancelled	29	(889)	-	(16,382)	-	889	-	(889)	-	(17,271)	-	(17,271)	
Share-based payments	30	-	-	813	-	-	-	-	-	813	-	813	
Transfer from retained profits	31	-	-	-	-	-	8,243	(8,243)	-	-	-	-	
At 31 December 2022	139,768	-	400,089*	2,576*	4,332*	14,765*	409,215*	860,947*	(673)*	1,831,019	82,929	1,913,948	

Notes:

- The share-based payment reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised.
- The deemed contribution reserve represents share-based payment expense incurred and recognised by the Group as settled by issue of shares of Sun.King Group Limited (賽晶集團有限公司) ("Sunking BVI"), a former shareholder of the Company.
- The other reserve mainly arose from certain waivers of loans and/or advances by Sunking BVI to the Group in prior years, acquisitions of/contributions from non-controlling interests, fair value changes on financial investments at fair value through other comprehensive income and the appropriation of statutory reserves.

* These reserve accounts comprise the consolidated reserves of RMB1,708,946,000 (2022: RMB1,691,251,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		46,970	38,886
Adjustments for:			
Finance costs	7	11,044	7,648
Share of profits and losses of a joint venture and associates		3,633	3,850
Interest income	5	(11,060)	(8,653)
Fair value gains on financial investments at fair value through profit or loss	5	(1,657)	(1,371)
Fair value gains on financial investments at fair value through other comprehensive income	5	(4,695)	–
Gain on disposal of property, plant and equipment, net	5	(13)	(190)
Fair value gains on foreign currency forward contracts, net	5	(4,811)	(7,443)
Depreciation of property, plant and equipment	6	42,907	37,584
Depreciation of right-of-use assets	6	4,593	3,978
Amortisation of other intangible assets	6	12,038	8,153
Amortisation of goodwill	6	1,189	–
Impairment of trade receivables and contract assets, net	6	2,895	4,848
Impairment of financial assets included in prepayments, other receivables and other assets, net	6	(75)	70
Amortisation of deferred income		(3,375)	(2,571)
Write-down of inventories to net realisable value	6	(179)	886
Share-based payment expense	6	764	813
Gain on bargain purchase	5	(3,470)	–
		96,698	86,488
Decrease/(increase) in inventories		(62,579)	42,457
Decrease/(increase) in trade and bills receivables and contract assets		1,709	(108,772)
Decrease/(increase) in prepayments, other receivables and other assets		(6,623)	26,052
Decrease/(increase) in pledged deposits		(28,481)	1,763
Increase in trade and bills payables		38,861	68,745
Increase in other payables and accruals and contract liabilities		31,314	4,711
Change in derivative financial instruments		6,261	–
Effect of foreign exchange rate changes, net		(12,489)	(7,614)
Cash generated from operations		64,671	113,830
Interest paid		(8,095)	(7,631)
Income taxes paid		(21,272)	(16,310)
Net cash flows from operating activities		35,304	89,889

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		8,346	5,566
Purchases of property, plant and equipment		(153,381)	(37,818)
Proceeds from disposal of property, plant and equipment		445	478
Decrease/(increase) in deposits for purchase of property, plant and equipment		29,177	(39,622)
Receipt of government grants for property, plant and equipment		–	818
Purchase of leasehold land		–	(5,490)
Additions to other intangible assets		(11,064)	(15,227)
Purchase of financial investments at fair value through profit or loss		(175,900)	(201,420)
Proceeds from disposal/maturity of financial investments at fair value through profit or loss		177,557	202,791
Proceeds from disposal of financial investments at fair value through other comprehensive income		49,695	–
Loans advanced to a joint venture		(25)	(30)
Capital contribution to an associate		(500)	–
Acquisition of subsidiaries	<i>32</i>	(4,191)	–
Net cash flows used in investing activities		(79,841)	(89,954)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	<i>29</i>	2,043	3,128
Repurchase of shares	<i>29</i>	(13,812)	(17,271)
New bank loans		162,250	95,251
Repayment of bank loans		(81,040)	(153,349)
New other borrowings		155,500	–
Principal portion of lease payments	<i>33(b)</i>	(3,386)	(2,700)
Acquisition of non-controlling interests		(100)	–
Capital injection from non-controlling shareholders		–	103,950
Net cash flows from in financing activities		221,455	29,009
NET INCREASE IN CASH AND CASH EQUIVALENTS		176,918	28,944
Cash and cash equivalents at beginning of year		618,768	587,176
Effect of foreign exchange rate changes, net		3,614	2,648
CASH AND CASH EQUIVALENTS AT END OF YEAR		799,300	618,768
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<i>23</i>	799,300	618,768

1. CORPORATE AND GROUP INFORMATION

Sun.King Technology Group Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 19 March 2010. The ordinary shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from 13 October 2010. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in the trading and manufacture of power electronic components.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Sunking Pacific Limited 賽晶亞太有限公司	Hong Kong	HK\$1	100%	Investment holding
Jiashan Sunking Power Equipment Technology Co., Ltd.* 嘉善華瑞賽晶電氣設備科技有限公司	The PRC/ Chinese Mainland	US\$125,000,000	100%	Sale, research and development, after sales service and production of electrical/ electronic components and installation, including integrated gate bipolar transistors
Wuxi Sunking Power Capacitor Co., Ltd.* 無錫賽晶電力電容器有限公司	The PRC/ Chinese Mainland	US\$42,132,222	100%	Production of electrical capacitors and complete devices, amorphous alloy transformers, DC current anode saturable dry-type reactors, and FM voltage AC traction; devices; trading agent of various products and technologies
Sunking Pacific Semiconductor Technology (Zhejiang) Co., Ltd.** 賽晶亞太半導體科技(浙江)有限公司	The PRC/ Chinese Mainland	US\$39,722,617	75.52%	Research and development, production and sales of IGBT, semiconductor components and other components
Beijing Sunking Power Electronics Technology Co., Ltd.* 北京賽晶電力電子科技有限公司	The PRC/ Chinese Mainland	RMB5,000,000	100%	Technology research for electronic power device railway equipment, sale and distribution of power electronic components, import and export of goods and technologies
Astrol Electronic AG	Switzerland	CHF110,000	65%	Manufacture and sale of pulsed power equipment, insulated gate bipolar transistor gate units, and other electronic parts

* Registered as a wholly-foreign-owned enterprise under PRC law.

** Registered as a limited liability company under PRC law.

All the above investments in subsidiaries are indirectly held by the Company.

Except for Sunking Pacific Limited and Astrol Electronic AG, the English names of all the above companies registered in the People’s Republic of China (the “**PRC**”) are direct translations of their registered Chinese names.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) promulgated by the International Accounting Standards Board (the “IASB”), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, bills receivable, financial investments at fair value through other comprehensive income 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 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has 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 less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and 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. ACCOUNTING POLICIES *(continued)*

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
<i>Amendments to IAS 12</i>	<i>International Tax Reform – Pillar Two Model Rules</i>

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

- (a) Amendments to IAS 1 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 IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to IAS 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. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 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 not expected to have any significant impact on the Group's financial statements.
- (d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised IFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i> ¹
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i> ¹
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to IAS 21	<i>Lack of Exchangeability</i> ²

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

² Effective for annual periods beginning on or after 1 January 2025

³ No mandatory effective date yet determined but available for adoption

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 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 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 IFRS 10 and IAS 28 was removed by the IASB. However, the amendments are available for adoption now. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 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 IFRS 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.

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments 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. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with earlier application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The amendments are not expected to have any significant impact on the Group's financial statements.

2. ACCOUNTING POLICIES *(continued)*

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 MATERIAL ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL 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 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 net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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 of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposal of and the portion of the cash-generating unit retained.

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

Fair value measurement

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

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

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

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

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

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

Impairment of non-financial assets

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

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

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 the parent of the Group.

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL 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 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	2.3% to 4.5%
Leasehold improvements	Over the shorter of the lease terms and 20.0%
Plant and machinery	9.0% to 19.4%
Furniture and fixtures	9.0% to 64.7%
Motor vehicles	19.4% to 24.3%

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 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 is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including right-of-use assets) held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL 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, technology know-how, customer relationship and computer software

Patents, technology know-how, customer relationship and computer software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding ten years.

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding ten 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.

(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 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:

Leasehold land	43 to 50 years
Buildings	2 to 10 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.

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee (continued)

(b) Lease liabilities

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

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

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (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 IFRS 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

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.

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

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

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

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in 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 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 IAS 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 profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in 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 the equity investments are also recognised as other income in profit or loss when the right of payment has been established.

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due, unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES *(continued)*

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

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings or payables.

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.

Subsequent measurement

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

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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 IFRS 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 profit or loss. The net fair value gain or loss recognised in 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 IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in 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 profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (trade and other payables, and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as foreign currency forward contracts, to hedge its foreign currency risk. These 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 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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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 Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is included in profit or loss net of any reimbursement.

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

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

Government grants

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

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

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 IFRS 15.

Revenue from the sale of power electronic components is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis. For those contracts with customer which have payment terms of retention money, the Group concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Group transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts was determined by discounting the amount of promised consideration using the appropriate discount rate.

Other income

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

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, 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. They are reclassified to trade receivables when the right to the consideration becomes unconditional.

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL ACCOUNTING POLICIES *(continued)*

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. 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 30 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 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.

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 payment transactions, 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.

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

Pension schemes

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES *(continued)*

2.4 MATERIAL 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. 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, which is also the functional currency of the Company. 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 profit or loss.

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

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

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss is 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, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in profit or loss.

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT 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. However, 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.

Judgement

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

Retention money receivable from customers

The Group agrees with certain customers that a portion, ranging from 5% to 10%, of the contracted amount (the retention money) is to be settled within six months to sixty months, subsequent to the fulfilment of certain conditions including delivery of goods or completion of installation as stipulated in the respective sales contracts. For those contracts with customers which have payment terms of retention money, the Group concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Group transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts was determined by discounting the amount of promised consideration using the appropriate discount rate.

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 days past due for groupings of various customers with similar loss patterns (i.e., by customer type and rating, and coverage by letters of credit or other forms of credit insurance).

The provision matrix is based on the Group's historical observed default rates after taking into consideration of forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated with any changes in the forward-looking estimates.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which the estimate has been changed. At 31 December 2023, the carrying amount of inventories was RMB229,919,000 (2022: RMB163,114,000).

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, 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. 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 2023 was RMB1,883,000 (2022: RMB583,000). The amount of unrecognised tax losses at 31 December 2023 was RMB264,528,000 (2022: RMB158,423,000). Further details are contained in note 28 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment which is principally engaged in the manufacturing and trading of power electronic components. All of Group's operating results from the operations are generated from this single segment. Management monitors the results of Group's operation as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

As the Group's major operations are in Chinese Mainland, and over 95% (2022: over 95%) of the Group's revenue are attributable to customers located in Chinese Mainland and non-current assets are located in Chinese Mainland, no further geographical segment information is provided.

Information about major customers

During the year, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group's revenue (2022: Nil).

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue from contracts with customers is as follows:

	2023 RMB'000	2022 RMB'000
Sale of power electronic components	1,054,702	917,780

The performance obligation of the sale of power electronic component is satisfied upon delivery of the products.

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:

	2023 RMB'000	2022 RMB'000
Sale of power electronic components	13,769	16,758

The Group has selected to choose a practical expedient and does not disclose the remaining performance obligations as almost all related contracts have a duration of one year or less.

An analysis of other income and gains is as follows:

	2023 RMB'000	2022 RMB'000
Government grants*	24,886	26,090
Bank interest income	8,346	5,566
Other interest income	786	783
Interest income arising from revenue contracts	1,928	2,304
Foreign exchange differences, net	15,878	24,988
Fair value gains on foreign currency forward contracts, net	4,811	7,443
Fair value gains on financial investments at fair value through profit or loss	1,657	1,371
Fair value gains on financial investments at fair value through other comprehensive income	4,695	–
Gain on disposal of property, plant and equipment, net	13	190
Gain on bargain purchases	3,470	–
Others	818	955
Total other income and gains	67,288	69,690

* Various government grants have been received for investments in certain regions in Mainland China in which the Company's subsidiaries operate as well as for the Group's technology advancements. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these government grants.

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT BEFORE TAX

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

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
Cost of inventories sold		719,353	655,493
Write-down of inventories to net realisable value		(179)	886
Cost of sales		719,174	656,379
Auditor's remuneration		1,700	1,700
Depreciation of property, plant and equipment	<i>13</i>	42,907	37,584
Depreciation of right-of-use assets	<i>15(a)</i>	4,593	3,978
Amortisation of deferred development costs	<i>17</i>	7,739	4,628
Amortisation of other intangible assets (excluding deferred development costs)	<i>17</i>	4,299	3,525
Lease payments not included in the measurement of lease liabilities	<i>15(c)</i>	327	889
Impairment of goodwill*	<i>16</i>	1,189	–
Impairment of trade receivables and contract assets, net*	<i>21</i>	2,895	4,848
Impairment of financial assets included in prepayments, other receivables and other assets, net*	<i>22</i>	(75)	70
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		106,379	89,783
Share-based payment expense	<i>30</i>	764	813
Pension scheme contributions**		16,972	16,210
Total		124,115	106,806

* These impairment and loss items are included in "Other expenses and losses" in profit or loss.

** At 31 December 2023, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2022: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
Interest on bank loans		7,745	7,283
Interest on other loans		2,966	–
Interest on lease liabilities	<i>15(b)</i>	333	365
Total		11,044	7,648

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2023 RMB'000	2022 RMB'000
Fees	756	720
Other emoluments:		
Salaries, allowances and benefits in kind	7,077	7,536
Pension scheme contributions	234	221
Subtotal	7,311	7,757
Total fees and emoluments	8,067	8,477

(a) Independent non-executive directors

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

	2023 RMB'000	2022 RMB'000
Mr. Chen Shimin	162	154
Mr. Zhang Xuejun	162	154
Mr. Leung Ming Shu	162	154
Total	486	462

There were no other emoluments payable to the independent non-executive directors during the year (2022: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2023					
Executive directors:					
Mr. Xiang Jie	90	1,650	1,468	16	3,224
Mr. Gong Renyuan*	90	1,400	1,260	116	2,866
Mr. Yue Zhoumin	90	910	389	102	1,491
Subtotal	270	3,960	3,117	234	7,581
Non-executive director:					
Ms. Zhang Ling	-	-	-	-	-
Total	270	3,960	3,117	234	7,581

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022					
Executive directors:					
Mr. Xiang Jie	86	1,686	2,026	15	3,813
Mr. Gong Renyuan*	86	1,400	1,260	110	2,856
Mr. Yue Zhoumin	86	840	324	96	1,346
Subtotal	258	3,926	3,610	221	8,015
Non-executive director:					
Ms. Zhang Ling	-	-	-	-	-
Total	258	3,926	3,610	221	8,015

* Mr. Gong Renyuan is also the chief executive of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2022: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors which included the chief executive (2022: two directors which included the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2022: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	6,235	5,599
Share-based payment expense	49	93
Pension scheme contributions	1,275	1,127
Total	7,559	6,819

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

	Number of employees	
	2023	2022
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
Total	3	3

In prior years, share options were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Under the PRC income tax laws, enterprises are subject to corporate income tax ("CIT") at a rate of 25% (2022: 25%). Certain subsidiaries of the Group are qualified as high technology enterprises and hence are granted a preferential CIT rate of 15% (2022: 15%). Tax holidays were also granted by a relevant authority to a subsidiary of the Group, where CIT is exempted for the first two profitable years of the subsidiary and is chargeable at half of the applicable rate for the subsequent three years.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2022: Nil). The Hong Kong profits tax rate during the year was 16.5% (2022: 16.5%).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

10. INCOME TAX (continued)

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. The Group's subsidiaries established in Switzerland, Germany and Netherlands are subject to local corporate taxes of approximately 18% (2022: approximately 18%), 32% (2022: approximately 32%) and 25.8% (2022: Nil), respectively.

	2023 RMB'000	2022 RMB'000
Current:		
Chinese Mainland – charge for the year	24,080	13,838
Underprovision/(overprovision) in prior years	(12)	72
Europe – charge for the year	323	14
Subtotal	24,391	13,924
Deferred (note 28)	(2,383)	1,935
Total tax charge for the year	22,008	15,859

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

2023

	Chinese Mainland RMB'000	Hong Kong RMB'000	Europe RMB'000	Total RMB'000
Profit/(loss) before tax	101,477	(18,083)	(36,424)	46,970
Tax at the statutory tax rate	25,369	(2,984)	(7,507)	14,878
Lower tax rates for specific provinces or enacted by local authority	(12,593)	–	–	(12,593)
Loss attributable to a joint venture	539	–	–	539
Loss attributable to associates	6	–	–	6
Income not subject to tax	–	(584)	–	(584)
Expenses not deductible for tax	4,639	2,608	51	7,298
Additional deductible allowance for research and development expenses	(14,621)	–	–	(14,621)
Tax losses utilised from previous periods	(881)	–	(1,246)	(2,127)
Tax losses not recognised	20,938	960	7,326	29,224
Adjustments in respect of current tax of previous periods	(12)	–	–	(12)
Tax charge/(credit) at the Group's effective rate	23,384	–	(1,376)	22,008

10. INCOME TAX (continued)

2022

	Chinese Mainland RMB'000	Hong Kong RMB'000	Europe RMB'000	Total RMB'000
Profit/(loss) before tax	69,867	(10,301)	(20,680)	38,886
Tax at the statutory tax rate	17,467	(1,700)	(4,075)	11,692
Lower tax rates for specific provinces or enacted by local authority	(10,853)	(148)	–	(11,001)
Loss attributable to a joint venture	961	–	–	961
Loss attributable to an associate	2	–	–	2
Income not subject to tax	–	(860)	–	(860)
Expenses not deductible for tax	8,444	2,072	21	10,537
Additional deductible allowance for research and development expenses	(13,593)	–	–	(13,593)
Tax losses utilised from previous periods	(1,323)	–	(163)	(1,486)
Tax losses not recognised	15,123	636	3,776	19,535
Adjustments in respect of current tax of previous periods	72	–	–	72
Tax charge/(credit) at the Group's effective rate	16,300	–	(441)	15,859

There was no share of tax attributable to a joint venture and associates for the year ended 31 December 2023 (2022: Nil).

11. DIVIDENDS

No dividends have been declared by the Company during the year ended 31 December 2023 (2022: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB31,547,000 (2022: RMB23,986,000), and the weighted average number of ordinary shares of 1,629,108,942 (2022: 1,635,080,505) in issue during the year.

The calculation of the diluted earnings per share amount 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.

The calculations of basic and diluted earnings per share are based on:

	2023 RMB'000	2022 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	31,547	23,986
Number of shares		
	2023	2022
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,629,108,942	1,635,080,505
Effect of dilution – weighted average number of ordinary shares: Share options	2,451,974	5,072,604
Total	1,631,560,916	1,640,153,109

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2023							
At 1 January 2023							
Cost	394,744	4,519	249,875	50,836	12,983	9,765	722,722
Accumulated depreciation and impairment	(65,607)	(2,381)	(98,124)	(33,832)	(9,470)	-	(209,414)
Net carrying amount	329,137	2,138	151,751	17,004	3,513	9,765	513,308
At 1 January 2023, net of accumulated depreciation and impairment	329,137	2,138	151,751	17,004	3,513	9,765	513,308
Additions	1,696	592	5,404	14,897	2,697	139,137	164,423
Acquisition of a subsidiary (note 32)	-	-	-	99	-	-	99
Disposals	-	-	(35)	(293)	(104)	-	(432)
Depreciation provided during the year	(11,110)	(610)	(19,531)	(10,214)	(1,442)	-	(42,907)
Transfers	1,644	-	30,319	829	-	(32,792)	-
Exchange realignment	-	281	-	1,081	13	-	1,375
At 31 December 2023, net of accumulated depreciation and impairment	321,367	2,401	167,908	23,403	4,677	116,110	635,866
At 31 December 2023:							
Cost	398,084	5,583	285,373	65,935	13,504	116,110	884,589
Accumulated depreciation and impairment	(76,717)	(3,182)	(117,465)	(42,532)	(8,827)	-	(248,723)
Net carrying amount	321,367	2,401	167,908	23,403	4,677	116,110	635,866

NOTES TO FINANCIAL STATEMENTS

31 December 2023

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022							
Cost	388,505	3,956	224,557	43,728	12,732	16,347	689,825
Accumulated depreciation and impairment	(54,431)	(1,821)	(80,013)	(27,756)	(9,022)	-	(173,043)
Net carrying amount	334,074	2,135	144,544	15,972	3,710	16,347	516,782
At 1 January 2022, net of accumulated depreciation and impairment	334,074	2,135	144,544	15,972	3,710	16,347	516,782
Additions	1,275	292	9,604	6,283	1,340	15,007	33,801
Disposals	-	-	(112)	(157)	(19)	-	(288)
Depreciation provided during the year	(11,176)	(474)	(18,521)	(5,883)	(1,530)	-	(37,584)
Transfers	4,964	-	16,236	389	-	(21,589)	-
Exchange realignment	-	185	-	400	12	-	597
At 31 December 2022, net of accumulated depreciation and impairment	329,137	2,138	151,751	17,004	3,513	9,765	513,308
At 31 December 2022:							
Cost	394,744	4,519	249,875	50,836	12,983	9,765	722,722
Accumulated depreciation and impairment	(65,607)	(2,381)	(98,124)	(33,832)	(9,470)	-	(209,414)
Net carrying amount	329,137	2,138	151,751	17,004	3,513	9,765	513,308

At 31 December 2023, two of the Group's buildings with an aggregate carrying amount of RMB7,290,000 (2022: RMB7,655,000) did not have building ownership certificates registered under the name of a subsidiary of the Group. The directors of the Company are of the view that the Group is entitled lawfully and validly to occupy and/or use the buildings for its daily operations, notwithstanding the fact that the related building ownership certificates have not yet been obtained.

At 31 December 2023, certain of the Group's buildings, plant and machinery with net carrying amounts of RMB288,488,000 (2022: RMB200,542,000) were pledged to secure general banking facilities granted to the Group (note 27).

14. INVESTMENT PROPERTIES

	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	–	–
Acquisition of a subsidiary (note 32)	16,956	–
Carrying amount at 31 December	16,956	–

The Group's investment properties consist of 3 commercial properties and 39 residential properties in Chinese Mainland, all of which did not have building ownership certificates registered under the name of a subsidiary of the Group. The directors of the Company are of the view that the Group is entitled lawfully and validly to own these properties, notwithstanding the fact that the related building ownership certificates have not yet been obtained.

The Group's management has determined that the investment properties consist of two classes of asset, i.e., commercial and residential, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2023 based on valuations performed by Asia-Pacific Consulting and Appraisal Limited, independent professionally qualified valuers, at RMB16,956,000. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for annual financial reporting.

Fair value hierarchy

All of the Group's investment properties are categorised within Level 3 of the fair value measurement hierarchy. 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 (2022: Nil).

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

	Commercial Properties RMB'000	Residential properties RMB'000
Carrying amount at 1 January 2023	–	–
Acquisition of a subsidiary (note 32)	2,146	14,810
Carrying amount at 31 December 2023	2,146	14,810

There was neither fair value gain nor loss of the Group's investment properties for the year ended 31 December 2023 because the acquisition of the subsidiary was completed on 26 December 2023, details of which are set out in note 32 to the financial statements.

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14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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

	Valuation techniques	Significant unobservable inputs	Range	
			2023	2022
Commercial properties	Market approach	Adjustment on market unit price (per sq.m.)	-3.8% to -2.9%	–
Residential properties	Market approach	Adjustment on market unit price (per sq.m.)	-16.2% to -2.0%	–

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

The adjustment on market unit prices is determined by referring to the differences of the subject property against the comparable properties in terms of building facilities, size, age and the listing nature of the comparable properties.

15. LEASES

The Group has lease contracts for various items of buildings and land use rights used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 43 to 50 years. Leases of property generally have lease terms between 2 and 10 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:

	Leasehold land RMB'000	Buildings RMB'000	Total RMB'000
At 1 January 2022	44,532	12,435	56,967
Additions	5,490	919	6,409
Depreciation charge	(1,202)	(2,776)	(3,978)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(37)	(37)
At 31 December 2022 and 1 January 2023	48,820	10,541	59,361
Additions	–	1,700	1,700
Depreciation charge	(1,248)	(3,345)	(4,593)
At 31 December 2023	47,572	8,896	56,468

At 31 December 2023, certain of the Group's land use rights with net carrying amounts of RMB27,495,000 (2022: RMB28,172,000) were pledged to secure general banking facilities granted to the Group (note 27).

15. LEASES (continued)

(b) Lease liabilities

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

	Note	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January		11,044	12,862
New leases		1,700	919
Accretion of interest recognised during the year	7	333	365
Payments		(3,719)	(3,065)
Revision of a lease term arising from a change in the non-cancellable period of a lease		–	(37)
Carrying amount at 31 December		9,358	11,044
Analysed into:			
Current portion			
– repayable within one year		3,400	2,795
Non-current portion			
– repayable in the second year		1,483	2,515
– repayable in the third to fifth years, inclusive		4,099	4,346
– repayable beyond five years		376	1,388
Subtotal		5,958	8,249
Total		9,358	11,044

The maturity profile of lease liabilities is disclosed in note 39 to the financial statements.

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

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	333	365
Depreciation charge of right-of-use assets	4,593	3,978
Expense relating to short-term leases (included in administrative expenses)	327	889
Total amount recognised in profit or loss	5,253	5,232

(d) The total cash outflow for leases is disclosed in note 33(c) to the financial statements.

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16. GOODWILL

	2023 RMB'000	2022 RMB'000
At 1 January and 31 December:		
Cost	8,392	8,392
Accumulated impairment	(2,703)	(1,514)
Net carrying amount	5,689	6,878

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Astrol		morEnergy		Total	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Gross amount	6,878	6,878	1,514	1,514	8,392	8,392
Accumulated impairment	(1,189)	–	(1,514)	(1,514)	(2,703)	(1,514)
Net carrying amount	5,689	6,878	–	–	5,689	6,878

Impairment testing of goodwill

The recoverable amount of Astrol cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18% (2022: 18%). The growth rate used to extrapolate the cash flows of Astrol cash-generating unit beyond the five-year period is 3% (2022: 3%), which is the same as the long term average growth rate of the industry in which Astrol cash-generating unit operated.

Assumptions were used in the value in use calculation of Astrol cash-generating unit for 31 December 2023 and 31 December 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the years immediately before the budget year, adjusted for expected market development.

Discount rates – The discount rates used are after tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

During the year, due to global economy downturn, the growth of service demand from some of Astrol's customers slowed down, resulting in a slower revenue growth rate of Astrol. Based on the economy outlook and latest financial information of Astrol, the management has made forecasts of the future sales growth of Astrol and cash flow projections of Astrol which lead to an impairment loss on goodwill. Astrol's recoverable amount of goodwill and other assets including intangible assets at 31 December 2023 was RMB18,729,000 which was lower than Astrol's notionally adjusted (100%) carrying amount (before impairment) of corresponding assets at 31 December 2023 with an aggregate amount of RMB20,558,000, resulting in a notionally adjusted (100%) shortfall amount of RMB1,829,000. Accordingly, an impairment loss of RMB1,189,000 was charged against the goodwill of Astrol, which is an indirect 65%-owned subsidiary of the Company, for the year ended 31 December 2023 (2022: Nil).

17. OTHER INTANGIBLE ASSETS

	Technology know-how RMB'000	Customer relationship RMB'000	Patents RMB'000	Deferred development costs RMB'000	Computer software RMB'000	Total RMB'000
31 December 2023						
At 1 January 2023:						
Cost	8,614	8,153	14,810	55,507	16,070	103,154
Accumulated amortisation and impairment	(5,599)	(5,299)	(7,616)	(8,484)	(4,596)	(31,594)
Net carrying amount	3,015	2,854	7,194	47,023	11,474	71,560
Cost at 1 January 2023, net of accumulated amortisation						
	3,015	2,854	7,194	47,023	11,474	71,560
Additions – internal development	-	-	-	10,584	-	10,584
Additions – external purchases	-	-	-	-	480	480
Acquisition of a subsidiary (note 32)	-	-	-	64	-	64
Amortisation provided during the year	(961)	(910)	(829)	(7,739)	(1,599)	(12,038)
Exchange realignment	350	331	430	1,978	7	3,096
Cost at 31 December 2023, net of accumulated amortisation	2,404	2,275	6,795	51,910	10,362	73,746
At 31 December 2023:						
Cost	9,614	9,099	15,771	68,487	16,595	119,566
Accumulated amortisation and impairment	(7,210)	(6,824)	(8,976)	(16,577)	(6,233)	(45,820)
Net carrying amount	2,404	2,275	6,795	51,910	10,362	73,746
31 December 2022						
At 1 January 2022:						
Cost	7,968	7,542	14,299	44,702	9,868	84,379
Accumulated amortisation and impairment	(4,383)	(4,148)	(6,605)	(3,777)	(3,254)	(22,167)
Net carrying amount	3,585	3,394	7,694	40,925	6,614	62,212
Cost at 1 January 2022, net of accumulated amortisation						
	3,585	3,394	7,694	40,925	6,614	62,212
Additions – internal development	-	-	-	9,298	-	9,298
Additions – external purchases	-	-	-	-	5,929	5,929
Amortisation provided during the year	(861)	(815)	(774)	(4,628)	(1,075)	(8,153)
Exchange realignment	291	275	274	1,428	6	2,274
Cost at 31 December 2022, net of accumulated amortisation	3,015	2,854	7,194	47,023	11,474	71,560
At 31 December 2022:						
Cost	8,614	8,153	14,810	55,507	16,070	103,154
Accumulated amortisation and impairment	(5,599)	(5,299)	(7,616)	(8,484)	(4,596)	(31,594)
Net carrying amount	3,015	2,854	7,194	47,023	11,474	71,560

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18. INVESTMENT IN A JOINT VENTURE AND ASSOCIATES

Investment in a joint venture

	2023 RMB'000	2022 RMB'000
Share of net assets	–	9,146
Loans to a joint venture	–	700
Total	–	9,846

The loans to the joint venture at 31 December 2022 were unsecured, interest-free and repayable on demand.

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2023 RMB'000	2022 RMB'000
Share of the joint venture's loss and total comprehensive loss	(3,593)	(3,842)
Aggregate carrying amount of the Group's investment in the joint venture	–	9,846

Investment in associates

	2023 RMB'000	2022 RMB'000
Share of net assets	1,639	1,147

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

	2023 RMB'000	2022 RMB'000
Share of the associates' loss and total comprehensive loss	(40)	(8)
Aggregate carrying amount of the Group's investment in associates	1,599	1,139

19. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

At the end of the reporting period, the financial investments of the Group comprised certificates of deposits which are principal-protected and with fixed interest rates. These financial investments were held within a business model with the objective of both holding to collect contractual cash flows and selling, therefore they are classified and measured at fair value through other comprehensive income.

20. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	123,379	108,506
Work in progress	28,613	23,413
Finished goods	77,927	31,195
Total	229,919	163,114

21. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS

	2023 RMB'000	2022 RMB'000
Trade receivables	741,768	654,024
Impairment	(14,508)	(11,822)
Net carrying amount	727,260	642,202
Bills receivable	87,346	156,041
Total	814,606	798,243

	31 December 2023 RMB'000	31 December 2022 RMB'000	1 January 2022 RMB'000
Contract assets	45,303	52,859	115,697
Impairment	(175)	(192)	(360)
Net carrying amount	45,128	52,667	115,337
Analysed into:			
Current portion	9,669	6,938	64,387
Non-current portion	35,459	45,729	50,950
Total	45,128	52,667	115,337

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and contract assets and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Concentration of credit risk is managed by customer/counterparty. The Group does not hold any collateral or other credit enhancements over its trade receivable and contract assets balances. Trade receivables and contract assets are non-interest-bearing.

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21. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS (continued)

For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including normal operation of the product within warranty period as stipulated in the respective sales contracts. Contract assets are recognised for revenue earned from the sale of products as the receipt of consideration is conditional on the successful expiry of warranty period. Upon the expiry of the warranty period, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2023 and 2022 are the result of the receipt of sales contract amounts and expiration of quality guarantee deposits.

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

	2023 RMB'000	2022 RMB'000
Within one year	9,669	6,938
More than one year	35,459	45,729
Total contract assets	45,128	52,667

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the customers' acknowledge of receipt or invoice date, where applicable, and net of loss allowance, is as follows:

	2023 RMB'000	2022 RMB'000
Within 3 months	513,670	352,042
3 to 6 months	76,889	122,030
6 to 12 months	84,422	97,509
Over 1 year	52,279	70,621
Total	727,260	642,202

At 31 December 2023, the Group's bills receivable would mature within six (2022: twelve) months.

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

	2023 RMB'000	2022 RMB'000
At beginning of year	11,822	6,874
Impairment losses, net (note 6)	2,912	5,016
Amount written off as uncollectible	(226)	(68)
At end of year	14,508	11,822

The increase in the loss allowance in 2023 and 2022 was mainly due to the increase in sales contract amounts.

21. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS (continued)

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

	2023 RMB'000	2022 RMB'000
At beginning of year	192	360
Impairment losses, net (note 6)	(17)	(168)
At end of year	175	192

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome and the reasonable and supportable information that is available at the reporting date about past events after taking into consideration of forward-looking information. For trade receivables and contract assets due from some major customers (Tier 1 customers), the Group is of opinion that there will be no expected credit loss on these accounts even though these trade receivables and contract assets are overdue, based on their credit rating and no history of default on these accounts.

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

31 December 2023

RMB'000	Within credit period	Past due				Total
		Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	
Gross carrying amount	470,666	277,874	29,076	1,166	8,289	787,071
Amount from Tier 1 customers	-	17,754	-	-	-	17,754
Carrying amount without Tier 1 customers	470,666	260,120	29,076	1,166	8,289	769,317
Expected credit loss rate (%)	0.35	0.35	11.64	36.19	100.00	1.91
Expected credit losses	1,664	923	3,385	422	8,289	14,683

31 December 2022

RMB'000	Within credit period	Past due				Total
		Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	
Gross carrying amount	383,311	283,884	25,868	10,057	3,763	706,883
Amount from Tier 1 customers	-	31,696	-	-	-	31,696
Carrying amount without Tier 1 customers	383,311	252,188	25,868	10,057	3,763	675,187
Expected credit loss rate (%)	0.34	0.34	11.50	31.11	100.00	1.78
Expected credit losses	1,295	853	2,974	3,129	3,763	12,014

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21. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS (continued)

At 31 December 2023, certain bills receivable of the Group with an aggregate carrying amount of RMB21,028,000 (2022: RMB48,733,000) were pledged to secure certain of the Group's bills payable (note 24).

At 31 December 2023, the Group endorsed certain bills receivable accepted by banks in Chinese Mainland (the "Endorsed Bills") with a carrying amount of RMB7,043,000 (2022: RMB17,750,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

At 31 December 2023, the Group endorsed certain bills receivable accepted by banks in Chinese Mainland (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB39,187,000 (2022: RMB59,467,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

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

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 RMB'000	2022 RMB'000
Prepayments	10,887	7,387
Deposits and other receivables	31,326	31,451
	42,213	38,838
Impairment	(2,727)	(2,802)
Total	39,486	36,036

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

	2023 RMB'000	2022 RMB'000
At 1 January	2,802	2,732
Impairment losses, net (note 6)	(75)	70
At 31 December	2,727	2,802

The decrease in the loss allowance in 2023 was mainly due to the decrease in overdue amounts of prepayments, other receivables and other assets with an aggregate gross carrying amount of RMB75,000 and corresponding loss allowance of RMB75,000. The increase in the loss allowance in 2022 was mainly due to the increase in overdue amounts of prepayments, other receivables and other assets with an aggregate gross carrying amount of RMB70,000 and corresponding loss allowance of RMB70,000.

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(continued)*

Included in the Group's other receivables at 31 December 2022 was loans due from a joint venture and the corresponding interest receivable with an aggregate amount of RMB11,268,000, details of the loans are included in note 36 to the financial statements.

Generally, the Group measures the loss allowance equal to 12-month ECL of prepayments, other receivables and other assets. For those balances expected to have significant increase in credit risk since initial recognition, the Group applies lifetime ECL based on the ageing for classes with different credit risk characteristics and exposures. Except for prepayments, other receivables and other assets amounting to RMB2,727,000 (2022: RMB2,802,000) included in the above balances, the above assets are neither past due nor impaired. Other than the aforementioned impaired prepayments, other receivables and other assets, the financial assets included in the above balances related to prepayments, other receivables and other assets for which there was no recent history of default and past due amounts. As at 31 December 2023 and 2022, the loss allowance was assessed to be minimal.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2023 RMB'000	2022 RMB'000
Cash and bank balances	838,565	629,552
Less: Bank deposits pledged for:		
Purchases of inventories	(10,432)	(10,248)
Bills payable	(28,833)	(536)
Subtotal	(39,265)	(10,784)
Cash and cash equivalents	799,300	618,768

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB660,617,000 (2022: RMB429,047,000). The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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24. TRADE AND BILLS PAYABLES

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

	2023 RMB'000	2022 RMB'000
Within six months	255,234	203,910
Over six months	46,295	46,927
Total	301,529	250,837

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 days to 180 days.

At 31 December 2023, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB28,833,000 (2022: RMB536,000) (note 23) and the Group's bills receivable amounting to RMB21,028,000 (2022: RMB48,733,000) (note 21), respectively.

25. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES

	2023 RMB'000	2022 RMB'000
Other payables and accruals	110,114	75,931
Deferred income	4,233	3,932
Contract liabilities	114,347	79,863
	26,950	13,769
Total	141,297	93,632

Notes:

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

Contract liabilities include short-term advances received to deliver power electronic components. The increase in contract liabilities in 2023 from RMB13,769,000 to RMB26,950,000, and in 2022 from RMB16,758,000 to RMB13,769,000, was mainly due to the decrease in short-term advances received from customers in relation to sales of power electronic components at the end of the respective years.

26. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has entered into various forward foreign currency contracts to manage its exchange rate exposures. These forward foreign currency contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Net fair value gain on these derivatives amounting to RMB4,811,000 (2022: RMB7,443,000) was credited to other income and gains during the year.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2023 RMB'000	2022 RMB'000
Current		
Bank loans, secured	9,650	5,000
Bank loans, unsecured	60,950	40,990
Other loans, unsecured	155,500	–
Total – current	226,100	45,990
Non-current		
Bank loans, secured	123,600	100,000
Bank loans, unsecured	33,000	–
Total – non-current	156,600	100,000
Total bank and other borrowings	382,700	145,990
Analysed into:		
Bank loans		
– repayable within one year or on demand	70,600	45,990
– repayable in the second year	156,600	–
– repayable in the third to fifth years, inclusive	–	100,000
Total bank loans	227,200	145,990
Other loans		
– repayable within one year or on demand	155,500	–
Total bank and other borrowings	382,700	145,990

At 31 December 2023, the Group's bank loans carry effective interest rates ranging from 2.5% to 4.1% (2022: 1.7% to 4.6%), and will mature during the years from 2024 to 2025 (2022: from 2023 to 2025). The Group's other loans represent redemption liabilities on one of its subsidiaries in which capital contribution from certain non-controlling shareholders of that subsidiary could become redeemable upon the occurrence of certain contingent events not controllable by the Group, and the redemption price is calculated based on an annual rate of 5.5% of the capital contribution amount. All of the Group's bank and other borrowings are denominated in RMB.

At 31 December 2023, the Group's bank and other borrowings of fixed interest rate and variable interest rate amounted to RMB223,400,000 and RMB159,300,000 (2022: RMB45,990,000 and RMB100,000,000), respectively.

The assets pledged to the Group's secured bank loans are summarised below:

	2023 RMB'000	2022 RMB'000
Land use rights	27,495	28,172
Buildings	117,297	121,475
Plant and machinery	171,191	79,067
Total	315,983	228,714

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28. DEFERRED TAX

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

	Government grants RMB'000	Provisions RMB'000	Fair value adjustments of financial investments at fair value through other comprehensive income RMB'000	Fair value adjustments arising from acquisitions of subsidiaries RMB'000	Losses available for offsetting against future taxable profits RMB'000	Right-of-use assets RMB'000	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
Deferred tax assets/(liabilities) at 1 January 2022	393	3,078	-	(2,653)	1,628	(2,246)	2,327	840	3,367
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(393)	485	-	441	(1,045)	334	(321)	(1,436)	(1,935)
Deferred tax charged to other comprehensive income	-	-	(524)	-	-	-	-	-	(524)
Exchange differences	-	-	-	(127)	-	-	-	-	(127)
Deferred tax assets/(liabilities) at 31 December 2022 and 1 January 2023	-	3,563	(524)	(2,339)	583	(1,912)	2,006	(596)	781
Deferred tax credited/(charged) to profit or loss during the year (note 10)	-	417	-	686	1,300	247	(262)	(5)	2,383
Deferred tax charged to other comprehensive income	-	-	(1)	-	-	-	-	-	(1)
Acquisition of a subsidiary (note 32)	-	-	-	(209)	-	-	-	-	(209)
Exchange differences	-	-	-	(176)	-	-	-	-	(176)
Deferred tax assets/(liabilities) at 31 December 2023	-	3,980	(525)	(2,038)	1,883	(1,665)	1,744	(601)	2,778

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

	2023 RMB'000	2022 RMB'000
Net deferred tax assets	4,816	3,120
Net deferred tax liabilities	(2,038)	(2,339)
Total	2,778	781

28. DEFERRED TAX *(continued)*

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

	2023 RMB'000	2022 RMB'000
Tax losses expired within five years	255,792	154,575
Tax losses available indefinitely	10,571	3,848
Subtotal	266,363	158,423
Deductible temporary differences	6,685	10,249
Total	273,048	168,672

Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate is 10%.

As at 31 December 2023, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Chinese Mainland. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Chinese Mainland for which deferred tax liabilities have not been recognised totalled RMB69,434,000 (2022: RMB79,336,000).

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

29. SHARE CAPITAL

Shares

	2023 HK\$'000		2022 HK\$'000	
Authorised:				
2,000,000,000 (2022: 2,000,000,000) ordinary shares of HK\$0.10 each	200,000		200,000	
	2023 HK\$'000	RMB'000 equivalent	2022 HK\$'000	RMB'000 equivalent
Issued and fully paid:				
1,622,790,000 (2022: 1,630,328,000) ordinary shares of HK\$0.10 each	162,279	139,081	163,033	139,768

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29. SHARE CAPITAL (continued)

Shares (continued)

A summary of movements in the Company's issued share capital and treasury shares is as follows:

	Number of shares in issue	Issued capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2022	1,637,132,500	140,377	–	412,475	552,852
Share options exercised (Note (a))	3,315,500	280	–	3,996	4,276
Shares repurchased and cancelled (Note (b))	(10,120,000)	(889)	–	(16,382)	(17,271)
At 31 December 2022 and 1 January 2023	1,630,328,000*	139,768	–	400,089	539,857
Share options exercised (Note (a))	2,098,000	186	–	2,502	2,688
Shares repurchased and cancelled (Note (b))	(9,952,000)	(873)	(378)	(12,561)	(13,812)
At 31 December 2023	1,622,474,000*	139,081	(378)	390,030	528,733

* Excluding 316,000 (2022: Nil) shares repurchased but not cancelled as at 31 December 2023.

Notes:

(a) In 2023, the subscription rights attaching to 2,098,000 share options were exercised at the subscription prices of HK\$1.10 per share (note 30), respectively, resulting in the issue of 2,098,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$2,308,000 (equivalent to approximately RMB2,043,000). An amount of RMB645,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

In 2022, the subscription rights attaching to 779,500 and 2,536,000 share options were exercised at the subscription prices of HK\$1.17 and HK\$1.10 per share (note 30), respectively, resulting in the issue of 3,315,500 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$3,702,000 (equivalent to approximately RMB3,128,000). An amount of RMB1,148,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

(b) During the year, the Company repurchased a total of 9,952,000 (2022: 10,120,000) of the Company's shares and 9,636,000 (2022: 10,120,000) shares have been cancelled. The total consideration paid to repurchase these shares was RMB13,812,000 (2022: RMB17,271,000), which has been deducted from equity attributable to the owners of the Company.

Shares options

Details of the Company's share options and the share options issued under the share option scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the “**2010 Share Option Scheme**”) for providing incentives and rewards to directors, eligible employees of the Group and consultants of the Group. The Share Option Scheme became effective on 23 September 2010 and, unless otherwise cancelled or amended, was to remain in force for 10 years from that date. In 2020, the Group replaced the Share Option Scheme with a new share option scheme (the “**2020 Share Option Scheme**”) for providing incentives and rewards to directors, eligible employees of the Group and suppliers, customers and consultants of the Group, which was approved in the Group’s annual general meeting held on 21 May 2020. Unless otherwise cancelled or amended, the 2020 Share Option Scheme will remain in force for 10 years from 21 May 2020.

Under both the 2010 Share Option Scheme and the 2020 Share Option Scheme, the maximum number of unexercised share options currently permitted to be granted is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date when the schemes were approved by the shareholders of the Company in a general meeting. The maximum number of shares issuable under share options to each eligible participant in the 2010 Share Option Scheme and the 2020 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Under both the 2010 Share Option Scheme and the 2020 Share Option Scheme, 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, in excess of 0.1% of the Company’s share capital or with a value in excess of HK\$5 million, based on the closing price of the Company’s shares at the date of offer, must be approved in advance by the Company’s shareholders.

Under both the 2010 Share Option Scheme and the 2020 Share Option Scheme, the offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period and ends on the date on which the options lapse or the date on which the scheme expires, if earlier. The exercise price of share options is determinable by the directors, but may 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 the Company’s shares.

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the Scheme as an equity-settled plan.

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

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30. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the 2010 Share Option Scheme during the year:

	2023		2022	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	1.10	8,218	1.10	12,333
Exercised during the year	1.10	(2,098)	1.12	(3,315)
Forfeited during the year	1.10	(450)	1.10	(800)
At 31 December	1.10	5,670	1.10	8,218

There was no share options outstanding under the 2020 Share Option Scheme during the year.

The weighted average share price at the date of exercise for share options exercised during the year was RMB1.70 per share (2022: RMB2.58).

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

Exercise period (dd-mm-yyyy)	Exercise price per share HK\$	Number of options	
		2023 '000	2022 '000
01-04-2021 to 31-03-2026	1.10*	5,670	8,218

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair values of each of the share options granted during the year ended 31 December 2020 were HK\$0.40 for executives and HK\$0.36 for non-executives, of which the Group recognised a share option expense of RMB397,000 for the year ended 31 December 2023 (2022: RMB813,000).

The fair value of equity-settled share options 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 for the share options granted during the year ended 31 December 2020:

	%
Dividend yield	2.3
Expected volatility	52
Historical volatility	52
Risk-free interest rate	0.67

30. SHARE OPTION SCHEME (continued)

The expected life of the options is determined with reference to the vesting term and original contractual term of the 2010 Share Option Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

The 2,098,000 share options exercised during the year resulted in the issue of 2,098,000 ordinary shares of the Company and new share capital of HK\$2,308,000 (equivalent to RMB2,043,000) as further detailed in note 29 to the financial statements.

At the end of the reporting period, the Company had 5,670,000 share options outstanding under the 2010 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 5,670,000 additional ordinary shares of the Company and additional share capital of HK\$567,000 (equivalent to RMB514,000) and share premium of HK\$5,670,000 (equivalent to RMB5,138,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 5,670,000 shares options outstanding under the 2010 Share Option Scheme, which represented 0.35% of the Company's shares in issue as at that date.

Equity incentive arrangement of Sunking Pacific Semiconductor Technology (Zhejiang) Co., Ltd. ("Sunking Zhejiang")

In July 2022, an equity incentive arrangement of Sunking Zhejiang, an indirect non-wholly-owned subsidiary of the Company, was set up to provide to eligible directors, management, other employees and consultants of Sunking Zhejiang restricted share awards as incentives (the "**Sunking Zhejiang Arrangement**"), which are to be vested upon the occurrence of certain contingent events. During the year ended 31 December 2023, the participants of the Sunking Zhejiang Arrangement were granted in aggregate 0.72% effective equity interest of Sunking Zhejiang at an aggregate consideration of RMB6,950,000 and the corresponding fair value was RMB19,325,000 as determined with reference to the fair value of a recent capital transaction of Sunking Zhejiang. The share-based payment expense attributable to the Sunking Zhejiang Arrangement for the year ended 31 December 2023 was RMB367,000.

31. RESERVES

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

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained profits equal to at least 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated statement of financial position as other reserves. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies.

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32. ACQUISITION OF SUBSIDIARIES

Business combination

On 30 April 2023, the Group acquired a 100% interest in KWx B.V. (“Kwx”). Kwx is principally engaged in trading of DC systems for maritime, transport, industrial applications and provision of relevant technical advice and solution services. The acquisition was made as part of the Group’s strategy to expand its business in the Nordic market. The purchase consideration for the acquisition was in the form of cash of EUR1,545,692 (equivalent to RMB12,096,000), all of which were paid in April 2023.

The fair values of the identifiable assets and liabilities of Kwx as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	99
Intangible assets	64
Cash and cash equivalents	7,709
Trade receivables	11,500
Prepayments and other receivables	6,692
Inventories	4,047
Trade payables	(11,831)
Tax payable	(595)
Other payables	(1,910)
Deferred tax liabilities	(209)
Total identifiable net assets at fair value	15,566
Gain on bargain purchases	(3,470)
Satisfied by cash	12,096

The gross contractual amounts and fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB11,500,000 and RMB261,000, respectively.

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration	(12,096)
Cash and bank balances acquired	7,709
Net outflow of cash and cash equivalents included in cash flows from investing activities	(4,387)

Since the acquisition, Kwx contributed RMB30,371,000 to the Group’s revenue and RMB1,299,000 to the consolidated profit for the year ended 31 December 2023.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB1,076,789,000 and RMB25,052,000, respectively.

32. ACQUISITION OF SUBSIDIARIES (continued)

Asset acquisition

On 26 December 2023, the Group obtained unilateral control over its then joint venture, Beijing Yaoting Tengyi Investment Partnership (Limited Partnership) (“**Yaoting**”), at nil consideration, which has since become a subsidiary of the Group. The fair values of the identifiable assets and liabilities of Yaoting as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Investment properties	16,956
Other receivables	1,329
Cash and cash equivalents	196
Other payables*	(149)
Total identifiable net assets at fair value	18,332
Satisfied by:	
Investment in the joint venture	6,253
Due from the joint venture	12,079
Total consideration	18,332

* Excluding the amount due to the Group amounting to RMB12,079,000.

An analysis of the cash flows in respect of the acquisition is as follows:

	RMB'000
Cash consideration	–
Cash and bank balances acquired	196
Net inflow of cash and cash equivalents included in cash flows from investing activities	196

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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 RMB1,700,000 (2022: RMB919,000) and RMB1,700,000 (2022: RMB919,000), respectively, in respect of lease arrangements for buildings.

(b) Changes in liabilities arising from financing activities

2023

	Bank and other borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2023	145,990	11,044
Changes from financing cash flows	236,710	(3,386)
New leases	–	1,700
Interest expense	–	333
Interest paid classified as operating cash flows	–	(333)
At 31 December 2023	382,700	9,358

2022

	Bank and other borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2022	204,088	12,862
Changes from financing cash flows	(58,098)	(2,700)
New leases	–	919
Interest expense	–	365
Interest paid classified as operating cash flows	–	(365)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(37)
At 31 December 2022	145,990	11,044

(c) Total cash outflow for leases

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

	2023 RMB'000	2022 RMB'000
Within operating activities	660	1,254
Within financing activities	3,386	2,700
Total	4,046	3,945

34. CONTINGENT LIABILITIES

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

35. COMMITMENTS

The Group had the following contractual commitments at the end of the reporting period:

	2023 RMB'000	2022 RMB'000
Buildings	13,992	15,505
Plant and machinery	77,094	84,548
Total	91,086	100,053

Other commitments

Commitments under foreign currency forward contracts:

	2023 RMB'000	2022 RMB'000
Purchase of Swiss franc	174,284	76,994

In addition, the Group had the following commitments provided to an associate, which are not included in the above:

	2023 RMB'000	2022 RMB'000
Capital contributions to an associate	2,500	–

36. RELATED PARTY TRANSACTIONS

(a) Compensation on key management personnel of the Group:

	2023 RMB'000	2022 RMB'000
Short term employee benefits	23,493	22,306
Post-employment benefits	2,654	2,448
Equity-settled share option expense	156	295
Total compensation on key management personnel	26,303	25,049

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

(b) Outstanding balances with related parties:

On 26 May 2020, 4 December 2020, 3 December 2021 and 16 August 2022, Jiashan Sunking and Yaoting, a then joint venture of the Group, entered into loan agreements pursuant to which Jiashan Sunking agreed to advance loans of RMB4,500,000, RMB4,920,000, RMB20,000 and RMB10,000 to Yaoting. The loans were unsecured, interest-bearing at a rate of 8.3% per annum and repayable within one year. On 25 May and 3 December 2021, Jiashan Sunking and Yaoting reached supplemental agreements to extend the aforementioned loans of RMB4,500,000 and RMB4,920,000 to 31 December and 3 December 2022, respectively. On 3 December 2022, Jiashan Sunking and Yaoting reached another supplemental agreement to extend the aforementioned loans to 31 December 2023. The corresponding interest income during the year was RMB786,000 (2022: RMB783,000). On 26 December 2023, Yaoting became a subsidiary of the Group and the outstanding balances were eliminated in full on consolidation.

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37. 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:

2023

Financial assets

	Financial assets at fair value through profit or loss – mandatorily designated as such RMB'000	Financial assets at fair value through other comprehensive income – debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	–	727,260	727,260
Bills receivable	–	87,346	–	87,346
Financial assets included in prepayments, other receivables and other assets	–	–	23,150	23,150
Financial investments at fair value through other comprehensive income	–	55,192	–	55,192
Derivative financial instruments	5,993	–	–	5,993
Pledged deposits	–	–	39,265	39,265
Cash and cash equivalents	–	–	799,300	799,300
Total	5,993	142,538	1,588,975	1,737,506

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	301,529	301,529
Financial liabilities included in other payables and accruals	67,811	67,811
Lease liabilities	9,358	9,358
Interest-bearing bank and other borrowings	382,700	382,700
Total	761,398	761,398

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2022

Financial assets

	Financial assets at fair value through profit or loss – mandatorily designated as such RMB'000	Financial assets at fair value through other comprehensive income – debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	–	642,202	642,202
Bills receivable	–	156,041	–	156,041
Financial assets included in prepayments, other receivables and other assets	–	–	19,526	19,526
Financial investments at fair value through other comprehensive income	–	101,755	–	101,755
Derivative financial instruments	7,443	–	–	7,443
Pledged deposits	–	–	10,784	10,784
Cash and cash equivalents	–	–	618,768	618,768
Total	7,443	257,796	1,291,280	1,556,519

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	250,837	250,837
Financial liabilities included in other payables and accruals	49,581	49,581
Lease liabilities	11,044	11,044
Interest-bearing bank and other borrowings	145,990	145,990
Total	457,452	457,452

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Financial assets				
Bills receivable	87,346	156,041	87,346	156,041
Financial investments at fair value through other comprehensive income	55,192	101,755	55,192	101,755
Derivative financial instruments	5,993	7,443	5,993	7,443
Total	148,531	265,239	148,531	265,239
Financial liabilities				
Interest-bearing bank and other borrowings	382,700	145,990	384,073	145,990
Total	382,700	145,990	384,073	145,990

Management has assessed that the fair values of the Group's financial instruments, except for bills receivable, financial investments at fair value through other comprehensive income, derivative financial instruments and non-current portion of interest-bearing bank borrowings, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of bills receivable and financial investments, comprising certificates of deposits, have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, comprising foreign currency forward contracts, are measured using valuation techniques similar to forward pricing models, using present value calculations. The models incorporate various market observable inputs including foreign exchange forward rates at the delivery dates.

The fair value of the non-current portion of interest-bearing bank borrowings has 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 interest-bearing bank borrowings as at 31 December 2023 were assessed to be insignificant.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 31 December 2023				
Bills receivable	–	87,346	–	87,346
Financial assets at fair value through other comprehensive income	–	55,192	–	55,192
Derivative financial instruments	–	5,993	–	5,993
Total	–	148,531	–	148,531
At 31 December 2022				
Bills receivable	–	156,041	–	156,041
Financial assets at fair value through other comprehensive income	–	101,755	–	101,755
Derivative financial instruments	–	7,443	–	7,443
Total	–	265,239	–	265,239

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
At 31 December 2023				
Interest-bearing bank and other borrowings	–	384,073	–	384,073
At 31 December 2022				
Interest-bearing bank and other borrowings	–	145,990	–	145,990

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 (2022: Nil).

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, and cash and bank balances and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising the potential adverse effects of these risks, with material impact, on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are disclosed in note 27 to the financial statements.

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 2023 RMB'000	2022 RMB'000
RMB	100	(1,582)	(1,234)
RMB	(100)	1,582	1,234

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into foreign currency forward contracts with creditworthy banks to manage its exchange rate exposure.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Swiss Franc ("CHF") exchange rate, with all other variables held constant, of the Group's profit before tax (arising from CHF denominated financial instruments).

	Increase/ (decrease) in foreign exchange rate %	Increase/(decrease) in profit before tax 2023 RMB'000	2022 RMB'000
If RMB weakens against CHF	5	3,210	6,685
If RMB strengthens against CHF	(5)	(3,210)	(6,685)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

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.

At 31 December 2023

	12-month	Lifetime ECLs			Total
	ECLs	ECLs			
	Stage 1	Stage 2	Stage 3	Simplified	Total
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Bills receivable	87,346	-	-	-	87,346
Trade receivables*	-	-	-	741,768	741,768
Contract assets*	-	-	-	45,303	45,303
Financial assets included in prepayments, other receivables and other assets					
– Normal**	25,877	-	-	-	25,877
– Doubtful**	-	-	2,727	-	2,727
Financial investments at fair value through other comprehensive income	55,192	-	-	-	55,192
Pledged deposits					
– Not yet past due	39,265	-	-	-	39,265
Cash and cash equivalents					
– Not yet past due	799,300	-	-	-	799,300
Total	1,006,980	-	2,727	787,071	1,796,778

NOTES TO FINANCIAL STATEMENTS

31 December 2023

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

Maximum exposure and year-end staging *(continued)*

At 31 December 2022

	12-month	Lifetime ECLs			Total
	ECLs	ECLs			
	Stage 1	Stage 2	Stage 3	Simplified	Total
	RMB'000	RMB'000	RMB'000	approach	RMB'000
				RMB'000	
Bills receivable	156,041	–	–	–	156,041
Trade receivables*	–	–	–	654,024	654,024
Contract assets*	–	–	–	52,859	52,859
Financial assets included in prepayments, other receivables and other assets					
– Normal**	22,328	–	–	–	22,328
– Doubtful**	–	–	2,802	–	2,802
Financial investments at fair value through other comprehensive income	101,755	–	–	–	101,755
Pledged deposits					
– Not yet past due	10,784	–	–	–	10,784
Cash and cash equivalents					
– Not yet past due	618,768	–	–	–	618,768
Total	909,676	–	2,802	706,883	1,619,361

* 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 note 21 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

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 projected cash flows from operations.

The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and lease liabilities. In addition, banking facilities have been put in place for contingency purposes.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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:

At 31 December 2023

	On demand or less than three months RMB'000	Three to less than twelve months RMB'000	Over one year RMB'000	Total RMB'000
Trade and bills payables	275,105	26,424	–	301,529
Financial liabilities included in other payables and accruals	67,811	–	–	67,811
Lease liabilities	949	2,633	7,804	11,386
Interest-bearing bank borrowings and other borrowings	155,550	72,128	166,068	393,746
Total	499,415	101,185	173,872	774,472

At 31 December 2022

	On demand or less than three months RMB'000	Three to less than twelve months RMB'000	Over one year RMB'000	Total RMB'000
Trade and bills payables	225,171	25,666	–	250,837
Financial liabilities included in other payables and accruals	49,581	–	–	49,581
Lease liabilities	777	2,302	9,151	12,230
Interest-bearing bank borrowings and other borrowings	–	46,873	113,056	159,929
Total	275,529	74,841	122,207	472,577

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. 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 2023 and 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is interest-bearing bank and other borrowings divided by total equity. The Group's policy is to maintain the gearing ratio as low as possible. The gearing ratios as at the end of the reporting periods were as follows:

	2023 RMB'000	2022 RMB'000
Interest-bearing bank and other borrowings (note 27)	382,700	145,990
Total equity	1,921,661	1,913,948
Gearing ratio	19.9%	7.6%

40. EVENTS ATER THE REPORTING PERIOD

Between 1 January 2024 and the date of approval of these financial statements, the Company repurchased a total of 15,766,000 of the Company's shares on the Stock Exchange at a total consideration of RMB16,536,675.

41. 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:

	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	459,100	518,537
Total non-current assets	459,100	518,537
CURRENT ASSETS		
Prepayments, other receivables and other assets	2,951	1,249
Due from a subsidiary	63,924	63,924
Cash and cash equivalents	36,035	451
Total current assets	102,910	65,624
CURRENT LIABILITIES		
Other payables and accruals	356	420
Total current liabilities	356	420
NET CURRENT ASSETS	102,554	65,204
TOTAL ASSETS LESS CURRENT LIABILITIES	561,654	583,741
Net assets	561,654	583,741
EQUITY		
Issued capital	139,081	139,768
Treasury shares	(378)	–
Reserves (note)	422,951	443,973
Total equity	561,654	583,741

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share premium account RMB'000	Share-based payment reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000	Other reserve RMB'000	Accumulated Losses RMB'000	Total RMB'000
Balance at 1 January 2022	412,475	2,911	3,443	6,294	42,519	(1,866)	465,776
Loss and total comprehensive loss for the year	-	-	-	-	-	(9,082)	(9,082)
Exercise of share options	3,996	(1,148)	-	-	-	-	2,848
Share-based payments	-	813	-	-	-	-	813
Shares repurchased and cancelled	(16,382)	-	889	-	-	(889)	(16,382)
At 31 December 2022 and 1 January 2023	400,089	2,576	4,332	6,294	42,519	(11,837)	443,973
Profit and total comprehensive loss for the year	-	-	-	-	-	(10,715)	(10,715)
Exercise of share options	2,502	(645)	-	-	-	-	1,857
Share-based payments	-	397	-	-	-	-	397
Shares repurchased and cancelled	(12,561)	-	873	-	-	(873)	(12,561)
At 31 December 2023	390,030	2,328	5,205	6,294	42,519	(23,425)	422,951

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2024.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
REVENUE	1,054,702	917,780	930,992	1,215,811	1,395,638
PROFIT BEFORE TAX	46,970	38,886	36,623	203,818	233,990
Income tax expense	22,008	(15,859)	(18,072)	(29,087)	(33,962)
PROFIT FOR THE YEAR	24,962	23,027	18,551	174,731	200,028
Attributable to:					
Owners of the parent	31,547	23,986	15,459	177,235	195,643
Non-controlling interests	(6,585)	(959)	3,092	(2,504)	4,385
	24,962	23,027	18,551	174,731	200,028

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
TOTAL ASSETS	2,837,453	2,496,623	2,377,141	2,519,062	2,566,331
TOTAL LIABILITIES	(915,792)	(582,675)	(577,588)	(745,227)	(877,828)
NON-CONTROLLING INTERESTS	(74,012)	(82,929)	(54,740)	(15,323)	(16,563)
	1,847,649	1,831,019	1,744,813	1,758,512	1,671,940