
# 2023 ANNUAL REPORT

CHESIR

# GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED
# 环球新材国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 06616

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr SU Ertian *(Chairman and Chief Executive Officer)*
Mr JIN Zengqin
Mr ZHOU Fangchao *(Joint company secretary)*
Mr BAI Zhihuan *(Vice President)*
Ms ZENG Zhu

### Non-executive Directors

Mr HU Yongxiang

### Independent non-executive Directors

Mr HUI Chi Fung
Professor HAN Gaorong
Mr LEUNG Kwai Wah Alex

## AUDIT COMMITTEE

Mr HUI Chi Fung *(Chairman)*
Professor HAN Gaorong
Mr LEUNG Kwai Wah Alex

## REMUNERATION COMMITTEE

Mr LEUNG Kwai Wah Alex *(Chairman)*
Professor HAN Gaorong
Mr ZHOU Fangchao

## NOMINATION COMMITTEE

Mr SU Ertian *(Chairman)*
Professor HAN Gaorong
Mr HUI Chi Fung

## JOINT COMPANY SECRETARIES

Mr ZHOU Fangchao
Ms CHEUNG Ka Lun Karen

## AUDITOR

RSM Hong Kong
*Certified Public Accountants*
*(Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance)*

## PRINCIPAL BANKERS

*In Hong Kong, China:*
Citibank (Hong Kong) Limited

*In the Mainland China:*
Bank of Liuzhou Co., Ltd.
Liuzhou Urban Rural Credit Cooperative Union

*In the Republic of Korea:*
Shinhan Bank Chungbuk Retail Banking Center

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG, CHINA

Room 2703, 27/F, China Resources Building
26 Harbour Road, Wanchai
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN THE MAINLAND CHINA

Pearlescent Industrial Park
No. 380, Feilu Road
Luzhai Town, Luzhai County
Liuzhou City
Guangxi Zhuang Autonomous Region
PRC

# CORPORATE INFORMATION

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

## COMPANY'S WEBSITE

www.chesir.com

## STOCK CODE

06616

# CHAIRMAN'S STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Global New Material International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the results of the Group for the year ended 31 December 2023 (the "**FY2023**"). The results of the Group for the FY2023 are presented together with the results of the Group for the year ended 31 December 2022 (the "**FY2022**") for comparative purpose.

The year 2023 was a year of economic recovery and development after the COVID-19 pandemic. With the overlapping of a package of stock and incremental policies and the continuous accumulation of policy effects, China's economy rebounded and improved, with high-quality development advancing in a solid manner.

The FY2023 was a landmark year in the development history of the Group. We actively implemented the development strategy of "Endogenous Development and Outward Expansion (內源式發展及外延式擴張)" established by the Board of Directors, focused on the core business of pearlescent materials, accelerated various strategic layouts and focused on expanding the production capacity of pearlescent materials, strengthening R&D capabilities, and coordinating the synergistic development of CQV Co., Ltd. ("**CQV**"), a non-wholly owned operating subsidiary of the Company acquired in August 2023, in the Republic of Korea ("**Korea**"). Under the leadership of the Directors and management, we adopted positive changes and proactive response strategies to drive the steady development of all businesses and made significant progress in all aspects, further consolidating our market position and successfully ranking among the top three in the global pearlescent pigment industry as measured by sales. The Company was awarded the "Listed Company of Hong Kong and US Stocks with Most Growth Potential" and was honoured to be recognised as one of "China's 500 Most Valuable Brands" in 2023. Also, I was selected as one of the "2023 GBA ESG Entrepreneurs 30" for the positive contributions to sustainable development. After being included in the Shenzhen-Hong Kong Stock Connect, the Company's shares were also enlisted as eligible securities under the Shanghai-Hong Kong Stock Connect, thus becoming A-share and Hong Kong-share interconnected stocks, which further enhances the liquidity of the Company's shares and boosts its visibility and influence in the capital market.

During the FY2023, we continued our high-quality development trend by ploughing into the market and refining our business. Guided by the Group's forward-looking strategic planning, we continued to hone our capabilities in the fields of high-end pearlescent materials, synthetic mica and new energy materials in a market-driven and customer-focused manner. We continued to penetrate new market space by leveraging on our high-quality products and services and entered the fast lane of development with leading innovation capability and technology. We steadily improved our operating results and continued to maintain a high-quality development trend.

In the FY2023, we took an important step forward in realising our globalisation layout by entering the international market and synergistic integration through the acquisition of CQV, a famous enterprise principally engaging in the production and sales of pearlescent pigments in Korea, in August 2023. Immediately after the completion of the said acquisition, we commenced the synergistic integration of CQV into our operations, which has yielded milestone results in terms of the deep integration of product, sales channel, research and development and production and procurement among others to date, and thereby steadily progressing the internationalisation of our business and operations. As our internationalisation process continues to accelerate, our "partnership network (朋友圈)" for open collaboration has also been gradually expanded.

# CHAIRMAN'S STATEMENT

During the FY2023, we planned meticulously with an eye on the future, and we continued to make breakthroughs in our major projects and construction. The construction of the Phase 2 Pearlescent Material Plant of Guangxi Chesir Pearl Material Co., Ltd., ("Chesir Pearl") an operating subsidiary of the Company in the People's Republic of China, with an annual production capacity of 30,000 tonnes was completed and officially commenced production, and the principal place of business of the Company in Hong Kong was relocated to China Resources Building. The successful completion of our major projects and construction one after another has supported the Group in its steady march towards the goal of "becoming a leader in the surface performance materials industry", and a healthy and promising ecosystem of "surface performance new materials industrial chain" has been gradually formed.

During the FY2023, we made fruitful achievements through uprightness and innovation, and we had been guided by scientific and technological innovation in pursuit of high-quality development. At our 2023 "Xuan Cai Huan Xin (絢彩煥新)" new product launch, we unveiled 5 series of new products and technologies leading the industry development trend, as well as 10 popular colours of the year. The launch was held virtually and physically at the same time, attracting thousands of attendees, and gained a huge response. "Technology, fashion, environmental protection" have become synonymous with the products and brand image of the Group.

During the FY2023, we closely followed trends and market demands and continued to increase investment in our R&D. We successfully developed and upgraded more than 100 new high-end pearlescent material products and marketed all of them, which continuously brought about more new experiences, values and choices to our users. These new products also made an impressive debut at industry exhibitions such as European Coatings Show, China International Coatings Show and China International Cosmetic Personal Care and Homecare Ingredients Show held in 2023, capturing a large number of potential customers.

During the FY2023, the Group received numerous honours owing to our hard work and progress. After a long period of endeavour and development, the Group's innovative power and development vitality have flourished. We received honours including "National Green Factory", "Quality Management Benchmark of Guangxi Industrial Enterprises", "Contract Abiding and Trustworthy Enterprise" and " Liuzhou May Day Labour Award Certificate" among others, and we were again accredited as a "national high-tech enterprise". Each honour we received represents the hard work and sacrifices of all our people, which is an honour and a motivation for us to create a better future together.

The year 2024 is the 75th anniversary of the founding of the PRC, a crucial year for the country to achieve the goals of and to implement the "14th Five-Year Plan", and at the same time a critical year for the Group to achieve the operational planning objectives of "internationalisation and corporatisation". We will adhere to the principles of seeking progress while maintaining stability, promoting stability through progress, and establishing before breaking new grounds. We will fully implement the strategic plans and annual business plan for the year 2024, and strive to successfully achieve the established goals. We will continue to uphold the new development concept and deeply plough into the surface performance material industry, while continuing to explore the development path of international marketisation, in order to steadfastly and successfully advance the high-quality development of the Group.

# CHAIRMAN'S STATEMENT

In the tide of the new era, every voyage is full of dreams and struggles. 2024 is a critical year for the Group in its endeavour to develop into a leading global enterprise in surface performance materials. On the long road from pursuing to leading, I would like to work together with all of you, under the guidance of the development strategy of "Endogenous Development and Outward Expansion", to strive to undertake the mission of leaving a historical portrait of the great era and write a glorious chapter of our journey!

Finally, on behalf of all members of the Board of Directors, I would like to express my sincere gratitude to the management and staff of the Group for their continued dedication and contribution, as well as to all shareholders and business partners for their unfailing support.

**SU Ertian**
*Chairman and Chief Executive Officer*

28 March 2024

# BUSINESS REVIEW

## BUSINESS DEVELOPMENT REVIEW

In the FY2023, under the leadership of the Directors and management, we focused on the core business of pearlescent materials, accelerated various strategic layouts, adopted positive changes and proactive response strategies, promoted the steady development of all businesses, made significant progress in various aspects, further consolidated our market position and ranked among the top three in the global pearlescent pigment market as measured by sales. For the FY2023, the Company's revenue amounted to approximately RMB1,064.1 million, representing a year-on-year increase of approximately 16.1%, while the net profit amounted to approximately RMB213.3 million, representing a decrease of approximately 9.8%, as compared to approximately RMB236.5 million in the FY2022. EBITDA for the FY2023 amounted to approximately RMB369.6 million, representing a year-on-year increase of approximately 13.9% as compared with approximately RMB324.4 million for the FY2022.

### Focused on the main business of pearlescent materials to enhance core competitiveness

In the FY2023, we dug deep into the production capacity of the Phase 1 Production Plant and steadily pushed forward the construction of the Phase 2 New Production Plant. The construction of the Phase 2 Pearlescent Material Plant of Chesir Pearl has been completed and it officially commenced production in February 2024, which will increase the Group's annual production capacity by 30,000 tonnes. The new plant applies automation and intelligent technology in depth, as part of the Group's commitment to become a global leader in the intelligent manufacturing of pearlescent pigments.

In the FY2023, we continued to expand the number of pearlescent pigment products we offered. We anchored on popular colours and market demand, and launched new high-end pearlescent pigments that are popular with many customers, further highlighting our brand strength, enriching our product matrix and building a strong competitive edge. During the FY2023, we launched 31 new natural mica-based pearlescent pigment products, 60 synthetic mica-based pearlescent pigment products, 18 glass flake-based pearlescent pigment products and 14 aluminium oxide-based pearlescent pigment products.

As at 31 December 2023, the total number of pearlescent pigment products offered by Chesir Pearl of Global New Material had reached 1,083, which comprise:

(a) 573 natural mica-based pearlescent pigment products under 17 series of different colours, textures and gloss levels;

(b) 422 synthetic mica-based pearlescent pigment products under 14 series of different colours, textures and gloss levels;

(c) 67 glass flake-based pearlescent pigment products under 4 series of different transparency, refractive index and flake structure; and

(d) 21 silicon oxide-based pearlescent pigment products under 1 series.

# BUSINESS REVIEW

As at 31 December 2023, the total number of pearlescent pigment products offered by CQV, a recently acquired non-wholly owned operating subsidiary of the Company in Korea, was 976 products, which comprise:

(1) 499 synthetic mica-based products;

(2) 158 natural mica-based products;

(3) 140 glass flake-based products;

(4) 98 aluminium oxide-based products;

(5) 3 PMSQ and silicon dioxide-based products;

(6) 42 hollow flake titanium oxide-based products;

(7) 33 aluminium silver paste metal pigment products; and

(8) 3 coloured aluminium metal pigment products.

## Adhered to innovation-driven development, enhancing quantity and quality of scientific research achievements

During the FY2023, we invested RMB75.0 million in R&D, accounting for approximately 7.1% of operating revenue, representing a year-on-year increase of approximately 4.3%. We achieved good results in R&D, resulting in a large number of scientific and technological achievements with independent intellectual property rights. During the FY2023, we successfully obtained 16 new granted patents, filed 3 new patent applications and had 7 patents under substantive examination. We have been recognised as a "National High-tech Enterprise", "National Intellectual Property Advantageous Enterprise", "Guangxi Technological Innovation Demonstration Enterprise" and "Guangxi Innovative Small and Medium-sized Enterprise". In addition, not long ago, we were also recognised as a "Guangxi Specialized, New Small and Medium-sized Enterprise (廣西專精特新中小企業)", which lays a solid foundation for the Company to grow into a "National Specialized, and New Small and Medium-sized Giant Enterprise (國家級專精特新小巨人企業)".

As at 31 December 2023, we owned a total of 151 patents, 74 registered trademarks and 4 software copyrights.

## Strengthened deep integration of industry-academia-research, and promoted the transformation of scientific and technological achievements into productivity

During the FY2023, we comprehensively promoted the in-depth integration of the development of "industry, academia, research and application (產、學、研、用)" with Zhejiang University and other colleges and universities. We made breakthroughs in a number of new energy research and development projects jointly carried out with Zhejiang University, among which synthetic mica-based new energy battery insulation and flame retardant materials have been commercialised. Our subsidiary, Chesir Luzhai, developed a variety of synthetic mica functional fillers, which are used in cosmetic functional fillers, art paints and other high-end fields, successfully opening up a second runway and creating a second growth curve.

### Seized market opportunities to further strengthen market position

During the FY2023, we seized the market opportunity to further upgrade and optimise our marketing channels and enhance our brand influence. We actively participated in exhibitions around the world, such as the European Coatings Show (ECS2023) in Nuremberg, Germany, the 27th China International Coatings Exhibition (CHINACOAT2022), the edition of Personal Care and Homecare Ingredients (PCHi2023) (中國國際化妝品個人及家庭護理用品原料展覽會) in Guangzhou, and the 2023 China International Coatings Show (CHINACOAT)/China International Surface Treatment Exhibition (SFCHINA) in Shanghai, to promote pearlescent pigment products. We carried out targeted and precise marketing according to the product characteristics of each pearlescent pigment. In addition, we were actively preparing for further expansion into the international market. With the synergistic integration of CQV into our Group as further discussed below, our global marketing channel layout has become more optimised.

### Accelerated integration, and achieved milestone results in the synergistic integration with CQV

In the FY2023, after the completion of the acquisition of CQV on 22 August 2023, the Group immediately commenced the post-acquisition integration of CQV into the operations of our Group, and engaged, a top global management consulting firm with rich experience in integrating multinational enterprises, to fully assist in advancing the synergistic integration work. Focusing on the synergistic integration of technology, products, business, sales channels, supply chain and other aspects, we formulated a comprehensive and detailed plan, clearly defined the integration objectives, team and function allocation, and steadily advanced the work through mutual visits and exchanges, in-depth communication at the plant, online communication and other technical means.

As at the date of this report, the Group and CQV had achieved milestone results in our synergistic integration in terms of the following:

(a) on product synergy, both of us complement each other's strengths in the product matrix of application areas, forming synergy effects and consolidating our advantages in the high-end market;

(b) on sales channel synergy, we integrate the market sales network of the two sides to achieve differentiated product cross-selling and to help the Company's domestic and overseas market expansion;

(c) on R&D technology synergy, we further integrate the technology research and development resources of both parties to promote the Company to become an industry leader in the global pearlescent pigment market with advanced technological leadership; and

(d) synergy of production and manufacturing, our excellent quality synthetic mica solves the raw material problem of CQV, promotes the accelerated release of CQV's production capacity, reduces the procurement cost, and further drives the Group to go from strength-to-strength in its synthetic mica business.

# FINANCIAL REVIEW

The following sets forth the management discussion and analysis of the performance of the Group during the FY2023. Comparisons have also been made to the performance of the Group during the FY2022. Please refer to note 2 to the consolidated financial statements on the basis upon which the results of the Group are prepared for the FY2023 and the FY2022.

## REVENUE

The Group is principally engaged in the business of the production and sales of pearlescent pigment products and functional mica and related products in the PRC and Korea. The assets of the Group are substantially located in the PRC and Korea. Following the acquisition of CQV in August 2023 and as at 31 December 2023 and the date of this report, the Group operates two reportable segments, namely, the PRC Business Operation and the Korea Business Operation, as compared to a single reportable segment prior to the acquisition of CQV. The Group's reportable segments are strategic business units managed by separate management as each segment requires different marketing strategies. The Group offers to its customers a range of pearlescent pigment products, namely (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; (d) silicon oxide-based pearlescent pigment products; (e) aluminium oxide-based pearlescent pigment products; and (f) aluminium-based pearlescent products.

The revenue of the Group is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties.

The table below sets forth an analysis of the Group's revenue by reportable segments:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | Revenue RMB'000 | Proportion of Revenue % | Revenue RMB'000 | Proportion of revenue % |
| **PRC Business Operation** | **960,949** | **90.3** | 916,820 | 100.0 |
| **Korea Business Operation** | **103,106** | **9.7** | — | — |
| **Total** | **1,064,055** | **100.0** | 916,820 | 100.0 |

The total revenue of the Group increased from approximately RMB916.8 million for the FY2022 to approximately RMB1,064.1 million for the FY2023, representing a year-on-year increase of approximately 16.1%. The revenue generated from the PRC Business Operation, which accounted for approximately 90.3% (FY2022: 100%) of the total revenue of the Group for the FY2023, increased by approximately 4.8% from approximately RMB916.8 million for the FY2022 to approximately RMB960.9 million for the FY2023. Such increase was mainly due to the increase in sales in synthetic mica-based pearlescent pigment products. The revenue generated from the Korea Business Operation, recorded by way of the consolidation of CQV into the account of the Group as a non-wholly owned subsidiary of the Company since August 2023, amounted to approximately RMB103.1 million for the FY2023, accounting for approximately 9.7% (FY2022: Nil) of the total revenue of the Group for the FY2023.

# FINANCIAL REVIEW

The table below sets forth an analysis of the Group's revenue by major products:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | RMB'000 | % | RMB'000 | % |
| **Pearlescent pigment products** | | | | |
| – Natural mica-based | 399,762 | 37.6 | 412,954 | 45.0 |
| – Synthetic mica-based | 438,171 | 41.2 | 378,814 | 41.3 |
| – Glass flakes-based | 79,419 | 7.5 | 51,720 | 5.7 |
| – Silicon oxide-based | 11,395 | 1.0 | 7,211 | 0.8 |
| – Aluminium oxide-based | 33,060 | 3.1 | — | — |
| – Aluminium-based | 2,196 | 0.2 | — | — |
| | 964,003 | 90.6 | 850,699 | 92.8 |
| **Functional mica filler** (1) | 83,766 | 7.9 | 64,351 | 7.0 |
| **New energy material** (2) | 5,667 | 0.5 | 1,770 | 0.2 |
| **Others** | 10,619 | 1.0 | — | — |
| **Total** | 1,064,055 | 100.0 | 916,820 | 100.0 |

*Notes:*

(1) The Group produces functional mica filler of different granule sizes, which can be used by the Group for the production of synthetic mica-based pearlescent pigment products. The functional mica filler can also be sold to the customers of the Group, in most cases upon the customers' requests, as their raw materials for the production of functional mica filler, insulating materials, refractory materials and nickel-hydrogen batteries.

(2) The Group had developed a number of synthetic mica-based new energy battery insulation and flame retardant materials. The high temperature resistance parameter reaches 1,150°C and a high voltage breakdown resistance parameter reaches 20KV/mm.

The customers of the Group may be broadly divided into trading company customers and end user customers. The former will re-sell the products to their own customers with whom the Group does not have direct contractual relationship. End user customers are customers using the pearlescent pigment products for their own use and production purpose.

# FINANCIAL REVIEW

The table below sets forth an analysis of the Group's sales to trading company customers and end user customers by products:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | RMB'000 | % | RMB'000 | % |
| **Trading company customers** | | | | |
| – Pearlescent pigment products | 796,922 | 74.9 | 698,412 | 76.2 |
| – Functional mica filler | 78,899 | 7.4 | 57,670 | 6.3 |
| – New energy material* | — | — | — | — |
| – Others | 9,469 | 0.9 | — | — |
| | 885,290 | 83.2 | 756,082 | 82.5 |
| **End user customers** | | | | |
| – Pearlescent pigment products | 167,081 | 15.7 | 152,287 | 16.6 |
| – Functional mica filler | 4,867 | 0.5 | 6,681 | 0.7 |
| – New energy material | 5,667 | 0.5 | 1,770 | 0.2 |
| – Others | 1,150 | 0.1 | — | — |
| | 178,765 | 16.8 | 160,738 | 17.5 |
| **Total** | 1,064,055 | 100.0 | 916,820 | 100.0 |

* *Value insignificant*

The table below sets forth an analysis of the Group's sales to customers by location:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| | RMB'000 | % | RMB'000 | % |
| The PRC | 961,325 | 90.3 | 896,477 | 97.8 |
| Asia (1) | 64,927 | 6.1 | 6,921 | 0.7 |
| Europe (2) | 22,599 | 2.1 | 6,455 | 0.7 |
| Africa (3) | 2,929 | 0.3 | 6,967 | 0.8 |
| North America (4) | 10,232 | 1.0 | — | — |
| South America (5) | 2,043 | 0.2 | — | — |
| **Total** | 1,064,055 | 100.0 | 916,820 | 100.0 |

* *Value insignificant*

Notes:

(1) Countries and territories in Asia include Pakistan, Hong Kong, Macau and Taiwan, Korea, Bangladesh, Japan, Thailand, Turkey, Israel, India, Indonesia, Jordan, Singapore, Vietnam, Kazakhstan, Uzbekistan, Malaysia and Australia.

(2) European countries include Estonia, Belgium, Poland, Germany, Finland, Netherlands, Serbia, Switzerland, Spain, Italy, the United Kingdom, France and Latvia.

(3) Countries in Africa include Algeria, Morocco, Tunisia and Egypt.

(4) Countries in North America include the United States, Canada and Mexico.

(5) Countries in South America include Brazil and Chile.

## Sales of pearlescent pigment products

The revenue generated from sales of pearlescent pigment products increased to approximately RMB964.0 million in the FY2023 from approximately RMB850.7 million in the FY2022, representing an increase of approximately RMB113.3 million or approximately 13.3%. Sales of natural mica-based pearlescent pigment products decreased by approximately RMB13.2 million, or approximately 3.2%, as compared to the FY2022. Sales of synthetic mica-based pearlescent pigment products increased by approximately RMB59.4 million, or approximately 15.7%, as compared to the FY2022. Sales of glass flake-based pearlescent pigment products increased by approximately RMB27.7 million, or approximately 53.6%, as compared to the FY2022. Sales of silicon oxide-based pearlescent pigment products increased by approximately RMB4.2 million, or approximately 58.0%, as compared to the FY2022. Sales of aluminium oxide-based pearlescent pigment products increased by approximately RMB33.1 million, or 100%, as compared to the FY2022. Sales of aluminium-based pearlescent pigment products increased by approximately RMB2.2 million, or 100%, as compared to the FY2022. Sales of other non-pearlescent pigment products increased by approximately RMB10.6 million, or 100%, as compared to the FY2022.

## Sales of functional mica filler

The sales of functional mica filler increased to approximately RMB83.8 million in the FY2023 from approximately RMB64.4 million in the FY2022, representing an increase of approximately RMB19.4 million or approximately 30.2%. The increase was due to the increasing demand for the synthetic mica-based pearlescent pigment products and the increase in the production of synthetic mica-based pearlescent pigment products as a result of technological improvement and the commercial operation of the additional equipment of Phase 1 Production Plant.

## Sales of new energy material

New energy material produced by the Group included the synthetic mica-based new energy battery insulation and flame retardant materials. The sales of new energy material recorded approximately RMB5.7 million in the FY2023 (FY2022: approximately RMB1.8 million).

# FINANCIAL REVIEW

## COST OF GOODS SOLD

The cost of goods sold increased by approximately 16.0% from approximately RMB455.2 million in the FY2022 to approximately RMB528.0 million in the FY2023. The increase in cost of goods sold was mainly due to the increase in the sales volume of pearlescent pigment products by approximately 4.0% from approximately 17,958 tonnes in the FY2022 to approximately 18,685 tonnes in the FY2023 and the increase in the sales volume of functional mica filler by approximately 44.5% from approximately 2,115 tonnes in the FY2022 to approximately 3,057 tonnes in the FY2023.

## GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit increased to approximately RMB528.3 million in the FY2023 from approximately RMB455.3 million in the FY2022, representing an increase of approximately 16.0%. The increase in the amount of the gross profit was primarily due to the increase in the amount of revenue. The gross profit margin remained at approximately 49.7% for the FY2023, which was the same as that in the FY2022.

## OTHER INCOME AND OTHER GAINS AND LOSSES

The amount of other income and other gains and losses in the FY2023 was approximately RMB28.0 million, as compared to approximately RMB18.3 million in the FY2022. The increase was mainly due to there is an exchange gain in the FY2023 but an exchange loss in the FY2022.

## REVERSAL OF IMPAIRMENT LOSSES/IMPAIRMENT LOSSES FOR TRADE, BILLS AND OTHER RECEIVABLES, NET

The Group has a reversal of impairment losses for trade, bills and other receivables, net of approximately RMB0.6 million in the FY2023, as compared to impairment losses of approximately RMB3.5 million in the FY2022.

## SELLING EXPENSES

The selling expenses increased to approximately RMB62.8 million in the FY2023 from approximately RMB56.7 million in the FY2022, representing an increase of approximately 10.8%. The increase in selling expenses was mainly attributable to the increase in selling expenses of the Group's new subsidiary, CQV, by RMB6.9 million.

## ADMINISTRATIVE AND OTHER OPERATING EXPENSES

The administrative and other operating expenses increased to approximately RMB188.6 million in the FY2023 from approximately RMB128.0 million in the FY2022, representing an increase of approximately 47.3%. Such increase was mainly attributable to inclusion of CQV's relevant expenses by way of consolidation of CQV into the accounts of the Group as a non-wholly owned subsidiary of the Company since August 2023; the expenses incurred for merger and acquisition of CQV; the expenses incurred in engaging professional services in relation to potential acquisition opportunities; the staff costs of addition of merger and acquisition team; and the increase in amortisation of intangible assets.

## FINANCE COSTS

Finance costs increased from approximately RMB11.0 million in the FY2022 to approximately RMB51.4 million in the FY2023, representing a significant increase of approximately 369.6%. Such increase was mainly due to the increase in bank loans and other borrowings, the interest expenses for the Tranche A Convertible Bond and the First Tranche Initial Bond.

## INCOME TAX EXPENSE

The income tax expense increased to approximately RMB40.7 million in the FY2023 from approximately RMB38.0 million in the FY2022. The increase was primarily due to expansion of the Group's business in Korea through CQV since August 2023; the increase in PRC Enterprise Income Tax; and offset by the decrease in deferred tax in the FY2023.

## PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the FY2023 amounted to approximately RMB213.3 million, representing a decrease of approximately 9.8%, as compared to approximately RMB236.5 million in the FY2022. Net profit margin for the FY2023 and the FY2022 was approximately 20.0% and 25.8%, respectively.

## USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

The shares (the "**Shares**") of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 16 July 2021. The Over-allotment Option (as defined and described in the prospectus (the "**Prospectus**") of the Company dated 30 June 2021) was partially exercised on 5 August 2021. The total number of new Shares issued by the Company under the global offering (the "**Global Offering**") was 319,742,000 and the amount of the net proceeds received by the Company from the Global Offering amounted to HK$970.2 million. The Company received the amount of the net proceeds from the Global Offering in July 2021 and August 2021, respectively.

# FINANCIAL REVIEW

The table below sets forth the intended use of the net proceeds from the Global Offering and actual utilisation amounts for the FY2023:

| Prescribed usage | Allocation of the net proceeds from the Global Offering HK$' million | Percentage to the total net proceeds % | Remaining balance as at 31 December 2022 HK$' million | Amount utilised during the year ended 31 December 2023 HK$' million | Remaining balance as at 31 December 2023 HK$' million | Expected timeline for the intended use |
|---|---|---|---|---|---|---|
| Construction of the Phase 2 Production Plant | 539.5 | 55.6 | 341.7 | 185.1 | 156.6 | By the first quarter of 2025 |
| Construction of the Luzhai Synthetic Mica Plant | 330.8 | 34.1 | 330.8 | —(1) | 330.8 | By the second quarter of 2025 |
| Increase investment in research and development facilities and testing equipment of the research and development centre | 68.9 | 7.1 | 44.2 | 44.2 | — | Utilised |
| Sales and marketing activities and building sales network | 31.0 | 3.2 | 18.2 | 13.3 | 4.9(2) | By end of 2024 |
| **Total** | 970.2 | 100.0 | 734.9 | 242.6 | 492.3 | |

*Notes:*

(1) The net proceeds from the Global Offering that would be used for the construction of a synthetic mica plant in Luzhai (the "**Luzhai Synthetic Mica Plant**") amounted to HK$330.8 million. During the FY2023, the Group did not use any of such amount for the purpose primarily due to completion of relocation of certain structures built on the land by a corporation did not progress as contemplated. The Board confirms that the proposed use of the net proceeds from the Global Offering remains unchanged and that the unutilised portion of such amount would be used by second quarter of 2025 for the same purpose. There are no other changes in the completion time and the use of the net proceeds for the construction of the Luzhai Synthetic Mica Plant as originally planned.

(2) The net proceeds from the Global Offering that would be used for sales and marketing activities and building sales network amounted to HK$31.0 million. During the FY2023, the Group incurred expenses in sales and marketing activities in a practical manner, and as a result HK$4.9 million has remained unutilised as at 31 December 2023. The Board confirms that the proposed use of the net proceeds from the Global Offering remains unchanged and that the unutilised portion of such amount in the FY2023 would be used by the end of 2024 for the same purpose. There are no other changes in the use of the net proceeds as originally planned.

## USE OF THE NET PROCEEDS FROM THE ISSUE OF THE TRANCHE A CONVERTIBLE BOND

On 28 December 2022, the Company entered into the subscription agreement with Hong Kong Boyue International Investment Fund Co., Limited (the "**2022 CB Subscriber**"), pursuant to which the Company conditionally agreed to issue, and the 2022 CB Subscriber conditionally agreed to subscribe and pay for, the 3.50% coupon convertible bonds (the "**2022 Convertible Bonds**") in the aggregate principal amount up to RMB500.0 million, comprising the Tranche A Convertible Bond in the principal amount of RMB300.0 million and the Tranche B Convertible Bond in the principal amount of not more than RMB200.0 million. The 2022 Convertible Bonds have an initial conversion price of HK$7.6 per Share and are convertible into Shares. Further details of the 2022 Convertible Bonds are disclosed in the announcement of the Company dated 28 December 2022.

On 30 December 2022, the Company completed the issue of the Tranche A Convertible Bonds in the principal amount of RMB300.0 million to the 2022 CB Subscriber. The amount of the net proceeds received by the Company from the issue of the Tranche A Convertible Bond amounted to RMB300.0 million. Further details of which are disclosed in the announcement of the Company dated 30 December 2022.

The table below sets forth the intended use of the net proceeds from the issue of the Tranche A Convertible Bond and the actual utilisation amount for the FY2023:

| Prescribed usage | Allocation of the net proceeds from the issue of the Tranche A Convertible Bond RMB' million | Percentage to the total net proceeds % | Remaining balance as at 31 December 2022 RMB' million | Amount utilised during the year ended up to 31 December 2023 RMB' million | Remaining balance as at 31 December 2023 RMB' million | Expected timeline for the intended use |
|---|---|---|---|---|---|---|
| Investment opportunities within the pearlescent pigments and synthetic mica industry | 300.0 | 100.0 | 300.0 | —(1) | 300.0 | By end of 2024 |

Note:

(1) During the FY2023, the Group did not use any of the net proceeds from the issue of the Tranche A Convertible Bond for the intended purpose as disclosed above because the Group is still in the course of exploring suitable investment opportunities. The Board confirms that the intended use remains unchanged and such unutilised proceeds in the FY2023 would be used by the end of 2024 for the same purpose.

On 31 July 2023, the 2022 CB Subscriber submitted to the Company that it was unable to complete the subscription for the Tranche B Convertible Bond on or before 31 July 2023. Therefore, the 2022 CB Subscriber will not proceed to subscribe for the Tranche B Convertible Bond. Further details of which are disclosed in the announcement of the Company dated 31 July 2023.

# FINANCIAL REVIEW

## USE OF NET PROCEEDS FROM THE ISSUE OF THE FIRST TRANCHE INITIAL BOND

On 5 November 2023, the Company entered into an agreement (the "**Purchase Agreement**") with Billion New Limited (the "**2023 CB Subscriber**"), pursuant to which (i) the Company conditionally agreed to issue, and the 2023 CB Subscriber conditionally agreed to subscribe for, the 9.0% initial convertible bonds in the aggregate principal amount of up to US$50.0 million due 2025 (the "**Initial Bonds**"), comprising the First Tranche Initial Bond in the principal amount of up to US$40.0 million and the Second Tranche Initial Bond in the principal amount of up to US$10.0 million; and (ii) the Company may, pursuant to the terms of the Purchase Agreement, exercise the option to conditionally issue to the 2023 CB Subscriber and/or any other incoming investor(s) 9.0% option convertible bonds in the principal amount of up to US$30.0 million due 2025 (the "**Option Bonds**", together with the Initial Bonds, the "**2023 Convertible Bonds**"). The 2023 Convertible Bonds have an initial conversion price of HK$7.6 per Share and are convertible into Shares. Further details of the 2023 Convertible Bonds are disclosed in the announcement of the Company dated 5 November 2023.

On 8 November 2023, the Company completed the issue of the First Tranche Initial Bond in the principal amount of US$40.0 million to the 2023 CB Subscriber. The amount of the net proceeds received by the Company from the issue of the First Tranche Initial Bond amounted to US$40.0 million. Further details of which are disclosed in the announcement of the Company dated 8 November 2023.

The table below sets forth the intended use of the net proceeds from the issue of the First Tranche Initial Bond and the actual utilisation amount for the FY2023:

| Prescribed usage | Allocation of the net proceeds from the issue of the First Tranche Initial Bonds US$' million | Percentage to the total net proceeds % | Amount utilised during the year ended 31 December 2023 US$' million | Remaining balance as at 31 December 2023 US$' million | Expected timeline for the intended use |
|---|---|---|---|---|---|
| General working capital requirement of the Group | 40.0 | 100.0 | 5.0 | 35.0 | By end of 2025 |

On 8 March 2024, the Company and the 2023 CB Subscriber entered into a supplemental agreement, whereby the parties agreed to extend the period for the Company to exercise the option to issue the Option Bonds by 120 days. Further details of which are disclosed in the announcement of the Company dated 8 March 2024.

As at the date of this report, the unutilised balance of the net proceeds from the Global Offering, the issue of the Tranche A Convertible Bond, and the issue of the First Tranche Initial Bond are deposited in the licensed banks in the PRC and Hong Kong.

# BUSINESS OUTLOOK

2024 is a critical year for the Group in its endeavour to develop into a leading global enterprise in surface performance materials. The Group will continue to follow the development strategy of "Endogenous Development and Outward Expansion (內源式發展及外延式擴張)", maintain our strategic strength, and insist on making progress while maintaining stability. We will continue to adhere to our mission of "Create Beautiful Colours for the World through Dedication of Premium Quality Products" (奉獻精品,為世界創造美麗色彩) and uphold our corporate value of "Integrity, Innovation, Leadership and Harmony" (誠信、創新、領先、和諧) to promote the sustainable development of the Group's business by the following strategies:

## CONTINUOUSLY STRENGTHEN THE DEEP INTEGRATION OF INTERNATIONAL TALENT TEAM

The subsidiaries of the Group are located in different countries with different cultural habits, different corporate development histories and different management models, Hence, we will adopt an "inclusive(相容並蓄)" mindset, be guided by a common mission and vision, and take cultural integration as a link to strengthen the in-depth integration and development of the talent teams of our subsidiaries and guide them to contribute to the development of the Company.

## INTEGRATION AND SYNERGISTIC DEVELOPMENT

The Group will continue to accelerate the business integration and synergy of all business segments and subsidiaries to achieve complementary advantages, build an ecosystem of supply chain for each internal business, eliminate information silos, and guide and generate good synergies.

## STRUCTURE THE ASIA-PACIFIC REGIONAL HEADQUARTER FUNCTION

The Group will build an Asia-Pacific headquarter, which will serve various functions including centralised financial control, global foreign exchange settlement centre, global technology research and development centre, global talent management centre, marketing management centre, etc., so as to provide solid support for the Company's globalised operation and management, and to continue to improve the overall operation and management efficiency.

# BUSINESS OUTLOOK

## CONTINUOUSLY INCREASE INVESTMENT IN RESEARCH AND DEVELOPMENT

The Group's R&D department will focus on three major directions of R&D, namely new pearlescent pigment products, synthetic mica functional fillers and new energy battery materials, and will continue to innovate and make breakthroughs in the five aspects of new substrates, new products, new processes, new equipment and new applications through R&D investment and technological innovation. In addition, the Group improve the talent team and R&D innovation mechanism, strengthen the deep integration with universities and research institutes, increase the application of intellectual property rights, and further consolidate the Group's R&D capabilities.

Further, the Group will continue to participate in standardisation work with a view to promoting high-quality development in high standards, advancing integration of scientific and technological research and development and standardisation, strengthening its research in key technology areas, assisting high-tech innovation with high standards, leading industry optimisation and upgrades, and striving to promote high-quality development of the industry.

## CAPTURE NEW BUSINESS OPPORTUNITIES

The Group will make full use of the capital market platform and continue to implement the parallel strategic initiatives of "Endogenous Development and Outward Expansion", accelerate the Group's various strategic layouts, continue to seek for channels with better co-operation bases and advanced technologies, and further enhance its core competitiveness through international acquisitions, in order to accelerate the expansion of the Group's business.

# DIRECTORS' REPORT

In addition to the business and financial information set forth in this annual report, the following sets forth certain information of the Group and its business and other operational aspects for the purpose of complying with the disclosure requirements under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the applicable laws and regulations:

## DIRECTORS

The Directors of the Company during the FY2023 and up to the date of this annual report were:

### Executive Directors

Mr SU Ertian *(Chairman and Chief Executive Officer)*
Mr JIN Zengqin
Mr ZHOU Fangchao *(Joint company secretary)*
Mr BAI Zhihuan *(Vice President)*
Ms ZENG Zhu

### Non-executive Directors

Mr HU Yongxiang

### Independent non-executive Directors

Mr HUI Chi Fung
Professor HAN Gaorong
Mr LEUNG Kwai Wah Alex

The updated biographical information on the Directors as at the date of this annual report is set forth in the paragraphs under "Biographical Information on Directors and Senior Management" of this annual report.

In accordance with article 84 of the articles of association of the Company ("**Articles**"), Mr JIN Zengqin, Ms ZENG Zhu and Mr LEUNG Kwai Wah Alex shall retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company to be held on Friday, 28 June 2024 (the "**Annual General Meeting**").

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, and its subsidiaries are principally engaged in the business of production and sales of pearlescent pigment products and functional mica and related products in the PRC and the Republic of Korea ("**Korea**").

# DIRECTORS' REPORT

## RESULTS AND APPROPRIATIONS

The results of the Group for the FY2023 are set forth under the "Consolidated Statement of Profit or Loss" in this annual report.

## FINAL DIVIDEND AND DIVIDEND POLICY

The Company has not adopted any fixed dividend pay-out ratio. Dividends may be paid out by way of cash or by such other means as the Directors consider appropriate. Declaration and payment of any dividends would require the recommendation of the Directors and will be at their discretion. In addition, any final dividend for a financial year will be subject to the approval of the shareholders (the "**Shareholders**") of the Company. A decision to declare or pay any dividend in the future, and the amount of any of such dividends, depends on a number of factors, including the Group's results of operations, financial condition, amount of capital expenditures, payment by the subsidiaries of cash dividends to the Company and such other factors as the Directors may deem relevant.

Any declaration or proposed payment of dividend or distribution by the Company is also subject to any requirements and restrictions under the Companies Act of the Cayman Islands, the Articles and any other applicable laws, rules and regulations.

The Board has decided not to declare and pay any final dividend for the FY2023 (FY2022: Nil).

## BUSINESS REVIEW AND PROSPECTS

Discussions and review on the business activities of the Group as required by Schedule 5 to the Companies Ordinance, including material events that have occurred since the year-end date and an indication of likely future development in the Group's business are set forth in the paragraphs under "Chairman's Statement", "Business Review", "Financial Review" and "Business Outlook" in this annual report. The relevant discussions form part of this Directors' Report.

## SUBSIDIARIES

Further information on the Company's principal subsidiaries is set forth in note 22 to the consolidated financial statements in this annual report.

## FINANCIAL SUMMARY

A summary of the operating results and of the assets and liabilities of the Group for the last five years is set forth under "Five-Year Financial Summary" in this annual report.

## LIQUIDITY AND FINANCIAL RESOURCES

### Liquidity and indebtedness

The Group's business operation is generally financed by its internal financial resources and bank loans and other borrowings.

As at 31 December 2023 and 2022, the bank and cash balances amounted to approximately RMB3,203.5 million and approximately RMB1,882.7 million, respectively. These balances were maintained at a prudent level for the purpose of satisfying the requirements for daily business operations and future expansion of the Group. The increase in the bank and cash balances as at 31 December 2023 was mainly due to the inclusion of those of CQV's by way of consolidation of CQV into the account of the Group as a non-wholly owned subsidiary of the Company since August 2023; proceeds received from the issue of the First Tranche Initial Bond; proceeds from the deemed disposal of equity interest in Chesir Luzhai; cash generated from operating activities; and increase of bank loans and other borrowings.

As at 31 December 2023 and 2022, the bank loans and other borrowings amounted to approximately RMB327.0 million and RMB203.3 million, respectively. The increase in the borrowings was mainly attributable to the consolidation of CQV as a non-wholly subsidiary of the Company since August 2023 and the increase in new bank loans and other borrowings of approximately RMB234.4 million, offset by the repayment of bank loans and other borrowings of approximately RMB201.3 million during the FY2023.

As at 31 December 2023, the Group had liability component of the convertible bonds of approximately RMB576.1 million (31 December 2022: approximately RMB294.2 million).

### Borrowings

Further information on the borrowings of the Group is set forth in note 30 to the consolidated financial statements in this annual report.

### Gearing ratio

The gearing ratio (calculated as total liabilities divided by total equity) of the Group was approximately 26.2% as at 31 December 2023 (31 December 2022: approximately 24.1%). The increase in the gearing ratio was mainly due to the increase of bank loans and other borrowings and the issue of the First Tranche Initial Bond.

### Net asset value

As at 31 December 2023 and 2022, the net assets of the Group amounted to approximately RMB4,085.1 million and approximately RMB2,543.3 million, respectively. Net asset value per Share contributed to owners of the Company as at 31 December 2023 amounted to approximately RMB2.55, as compared to approximately RMB1.98 as at 31 December 2022.

# DIRECTORS' REPORT

### Contingent liabilities

As at 31 December 2023, there was a pending lawsuit in respect of seeking an injunction of patent infringement being brought against CQV during 2022 and claiming approximately RMB1.1 million. The Group intends to contest the claim, and while the final outcome of the proceedings is uncertain, it is the Directors' opinion that the ultimate liability, if any, will not have a material impact on the Group's financial position.

### Pledge of assets

As at 31 December 2023, certain property, plant and equipment, and right-of-use assets with aggregate net book value of approximately RMB242.0 million, as compared to approximately RMB139.7 million as at 31 December 2022, were pledged to financial institutions as collaterals for bank and other borrowings.

As at 31 December 2023, the restricted deposits pledged as security for the Group's other borrowings amounted to approximately RMB2.4 million (31 December 2022: Nil).

## CAPITAL STRUCTURE

Save as disclosed, there was no other material change in the capital structure of the Company during the FY2023. The capital of the members of the Group comprises ordinary shares.

Information about the share options of the Company and details of changes in the share options granted by the Company for the FY2023 is set forth in the paragraph under "Share Option Scheme" below.

On 22 August 2023, in connection with the acquisition of CQV, 47,106,546 new ordinary shares of the Company were allotted and issued at a price of HK$8.0 for each new ordinary share under the general mandate granted to the Directors by a resolution of the Shareholders passed on 27 June 2023 as partial settlement of the aggregate consideration for the Acquisition of KRW85.9 billion (equivalent to approximately RMB465.7 million or approximately HK$531.6 million).

As at 31 December 2023, the Company had issued (i) the Tranche A Convertible Bond in the aggregate principal amount of RMB300.0 million in relation to the 2022 Convertible Bonds issue on 30 December 2022; and (ii) the First Tranche Initial Bond in the principal amount of US$40.0 million in relation to the 2023 Convertible Bonds issue on 8 November 2023. Both the Tranche A Convertible Bond and the First Tranche Initial Bond have an initial conversion price of HK$7.6 per Share and are convertible into the maximum of 43,815,789 and 40,789,474 Shares, respectively.

# DIRECTORS' REPORT

The table below sets forth the summary of the convertible bonds for the FY2023. Further details of the convertible bonds are set forth in note 31 to the consolidated financial statements in this annual report.

| Date of issue | Principal amount as at 1 January 2023 | Maturity date | Conversion price per share HK$ | Amount converted into Shares during the FY2023 | Amount redeemed during the FY2023 | Outstanding principal amount as at 31 December 2023 | Number of shares to be issued upon full conversion as at 31 December 2023 |
|---|---|---|---|---|---|---|---|
| 30 December 2022 | RMB300,000,000.0 | fourth anniversary of the date of issue | 7.6 | — | — | RMB300,000,000.0 | — (Note 1) |
| 8 November 2023 | — | second anniversary of the date of issue | 7.6 | — | — | US$40,000,000.0 | — (Note 2) |

Note:

1. The Company made an application to the Listing Committee (as defined in the Listing Rules) for the listing of, and permission to deal in, 73,026,316 Shares, which may be issued and allotted upon the conversion of the aggregate principal amount up to RMB500.0 million of the 2022 Convertible Bonds at the initial conversion price of HK$7.6 per Share, on 30 December 2022. Such approval has been granted by the Listing Committee in January 2023.

2. The Company made an application to the Listing Committee (as defined in the Listing Rules) for the listing of, and permission to deal in, 81,578,947 Shares, which may be issued and allotted upon the conversion of the aggregate principal amount up to US$80.0 million of the 2023 Convertible Bonds at the initial conversion price of HK$7.6 per Share, on 7 November 2023. Such approval has been granted by the Listing Committee on 23 November 2023.

As at 31 December 2023, no conversion into shares had occurred for the Tranche A Convertible Bond and the First Tranche Initial Bond. If the conversion rights attaching to the Tranche A Convertible Bond and the First Tranche Initial Bond were fully exercised in accordance with relevant conditions, the Company would have issued 43,815,789 and 40,789,474 Shares, respectively, representing approximately 3.54% and 3.29%, respectively, of the total issued Shares as at 31 December 2023 and 3.31% and 3.08%, respectively, of the total issued Shares as enlarged by the issue of such conversion shares.

# DIRECTORS' REPORT

The table below sets forth the dilution impact of the full conversion of the Tranche A Convertible Bond and the First Tranche Initial Bond on the shareholding of the Shareholders (having referred to the Company's shareholding structure as at 31 December 2023 and assuming no further Shares would be issued by the Company):

| Name of Shareholders | As at 31 December 2023 | | Immediately following the full conversion of the Tranche A Convertible Bond | | Immediately following the full conversion of the Tranche A Convertible Bond and the First Tranche Initial Bond | |
|---|---|---|---|---|---|---|
| | No. of Shares | % of the issued Shares | No. of Shares | % of the issued Shares | No. of Shares | % of the issued Shares |
| **Directors** | | | | | | |
| – Mr SU Ertian *(Note 1)* | 422,100,948 | 34.07% | 422,100,948 | 32.91% | 422,100,948 | 31.89% |
| – Mr BAI Zhihuan *(Note 2)* | 694,000 | 0.06% | 694,000 | 0.05% | 694,000 | 0.05% |
| – Mr HU Yongxiang *(Note 3)* | 19,285,200 | 1.56% | 19,285,200 | 1.50% | 19,285,200 | 1.46% |
| **Substantial Shareholder** | | | | | | |
| – Guangxi Investment Group Co., Ltd. *(Note 4)* | 166,656,344 | 13.45% | 166,656,344 | 12.99% | 166,656,344 | 12.59% |
| **Public Shareholders** | 630,133,640 | 50.86% | 630,133,640 | 49.13% | 630,133,640 | 47.62% |
| **The holder of the Tranche A Convertible Bond** | – | – | 43,815,789 | 3.42% | 43,815,789 | 3.31% |
| **The holder of the First Tranche Initial Bond** | – | – | – | – | 40,789,474 | 3.08% |
| **Total** | 1,238,870,132 | 100.00% | 1,282,685,921 | 100.00% | 1,323,475,395 | 100.00% |

Notes:

(1) Mr SU is the Chairman and the Chief Executive Officer of the Company and an executive Director. As at 31 December 2023, Mr SU was interested in an aggregate of 422,100,948 Shares, among which he was deemed to be interested in 419,047,948 Shares through certain corporations and he beneficially owned 3,053,000 Shares. Mr JIN Zengqin, an executive Director, was deemed to be interested in 44,252,148 Shares through two corporations controlled by Mr SU and him as at 31 December 2023.

(2) Mr BAI Zhihuan is an executive Director. As at 31 December 2023, Mr BAI Zhihuan beneficially owned 694,000 Shares.

(3) Mr HU Yongxiang is a non-executive Director. As at 31 December 2023, Mr HU Yongxiang was deemed to be interested in 19,285,200 Shares through a corporation.

(4) As at 31 December 2023, Guangxi Investment Group Co., Ltd. is deemed to be interested in 166,656,344 Shares through certain corporations.

## RESERVES

Further information on the movements in the reserves of the Group and of the Company for the FY2023 is set forth in Consolidated Statement of Changes in Equity and note 29 to the consolidated financial statements in this annual report, respectively.

## PROPERTY, PLANT AND EQUIPMENT

Further information on the movements in property, plant and equipment of the Group for the FY2023 is set forth in note 17 to the consolidated financial statements in this annual report.

## CAPITAL EXPENDITURE AND COMMITMENTS

Capital commitments represent the amount of capital expenditure contracted for as at a particular date but not yet incurred. As at 31 December 2023 and 2022, the capital commitments amounted to approximately RMB275.1 million and approximately RMB441.9 million, respectively, which represent the commitments to purchase property, plant and equipment and include (a) the modifications and expansions of the Phase 1 Production Plant and (b) the construction of the Phase 2 Production Plant and the Luzhai Synthetic Mica Plant and the acquisition of the related production facilities

## FOREIGN EXCHANGE EXPOSURE

The Group primarily operates in the PRC and Korea and most of its business transactions, assets and liabilities are denominated in Renminbi and Korean Won. The Group is exposed to foreign currency risk primarily in respect of US dollars and Japanese Yen denominated transactions arising from purchases of certain imported raw materials and sale and purchase transactions from its operations in Korea. The Directors are of the opinion that the related foreign currency risk exposure has not adversely affect the Group's operations or liquidity and is manageable. During the FY2023, the Group did not commit to any financial instruments to hedge its foreign currency risk exposure. However, the management of the Group will regularly and closely monitor the Group's foreign currency exposure and will consider hedging against significant foreign currency exposure should the need arises.

## SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

### Acquisition of CQV Shares and CQV Treasury Shares

On 27 January 2023, (i) the Company, Chesir International Holdings Limited ("**Chesir International**"), a wholly owned subsidiary of the Company, Star Cheer Corporation Limited ("**Star Cheer**"), a wholly owned subsidiary of Chesir International, and Mr CHANG Kil Wan ("**Mr CHANG**") entered into the share purchase agreement (the"**CQV Sale Shares A Agreement**"), pursuant to which Star Cheer conditionally agreed to purchase, and Mr CHANG conditionally agreed to sell, 2,255,189 shares of CQV Co., Ltd. ("**CQV**"), a company incorporated in the Republic of Korea with limited liability on 20 October 2000 with its shares listed on the Korea Securities Dealers Automated Quotations (KOSDAQ: 101240), (ii) the Company, Chesir International, Star Cheer and Mr LIM Kwang Su ("**Mr LIM**") entered into the share purchase agreement (the"**CQV Sale Shares B Agreement**"), pursuant to which Star Cheer conditionally agreed to purchase, and Mr LIM conditionally agreed to sell, 873,163 shares of CQV, and (iii) the Company and CQV entered into the share purchase agreement (the"**CQV Treasury Shares Agreement**"), pursuant to which the Company conditionally agreed to purchase, and CQV conditionally agreed to sell, 1,175,576 treasury shares of CQV (collectively, the"**Acquisition**").

# DIRECTORS' REPORT

The aggregate consideration for the Acquisition is KRW85.9 billion (equivalent to RMB465.7 million or HK$531.6 million) which will be settled upon the closing of the Acquisition by way of (a) cash payment of KRW25.0 billion (equivalent to RMB135.5 million or HK$154.8 million) and (b) allotment and issue of 47,106,546 new shares (the"**Consideration Shares**") of the Company at the issue price of HK$8.0 for each Consideration Share under the general mandate granted to the Directors by the Shareholders' resolution on 27 June 2023.

The Acquisition was approved by the Shareholders at the extraordinary general meeting of the Company held on 30 June 2023 and the closing of the Acquisition took place on 22 August 2023.

Upon the closing of the Acquisition, the Company holds 42.45% of the issued shares of CQV and is the single largest shareholder of CQV. CQV has become a non-wholly owned subsidiary of the Company with the financial performance and position to be consolidated into the accounts of the Group.

Further details of the Acquisition are disclosed in the announcement of the Company dated 27 January 2023, the circular of the Company dated 13 June 2023 and the announcement of the Company dated 23 August 2023.

### Deemed Disposal of equity interest in Chesir Luzhai

On 20 November 2023, Luzhai Chesir Pearl Mica Material Co., Ltd.* (鹿寨七色珠光雲母材料有限公司) ("**Chesir Luzhai**"), an indirect non-wholly owned subsidiary of the Company, and Tonglu New City Development Investment Co., Ltd.* (桐廬新城發展投資有限公司) (the "**Investor**") entered into a capital increase agreement (the "**Capital Increase Agreement**"), pursuant to which the Investor conditionally agreed to inject RMB1,000,000,000 in cash into Chesir Luzhai (the "**Capital Increase**"). Upon completion of the Capital Increase, the effective equity interest of the Group in Chesir Luzhai will be diluted from approximately 65.28% to approximately 52.22%, and will therefore constitute a deemed disposal pursuant to Rule 14.29 of the Listing Rules (the "**Deemed Disposal**").

The Company intends to apply the net proceeds of the Capital Increase for its future business expansion and use of investment opportunities at the pearlescent pigments and synthetic mica and related industry.

As at the date of this annual report, all conditions precedent to the Capital Increase Agreement were fulfilled and the total consideration for the Capital Increase in the amount of RMB1,000,000,000 was received by Chesir Luzhai from the Investor. The registration and filing in relation to the Capital Increase with the relevant Administration for Market Regulation authorities of the PRC and the registration of the Investor as an equity interest holder of Chesir Luzhai were also completed.

For further details of the Capital Increase and the Deemed Disposal, which constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules, please refer to the announcements of the Company dated 20 November 2023 and 6 December 2023.

Save as disclosed above and in the paragraphs under "Use of the Net Proceeds from the Global Offering", "Use of the Net Proceed from the issue of the Tranche A Convertible Bond" and "Use of net proceeds from the issue of the First Tranche Initial Bond" in this annual report, the Group did not have any other significant investment, material acquisition or disposal during the FY2023.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group maintains effective communications with its customers and strives to satisfy customers' requirements from time to time, in order to provide high quality products to its customers.

The Group establishes good relationships with reputable suppliers within the industries and conducts a fair appraisal of its suppliers on a regular basis.

The percentage of purchases attributable to the five largest suppliers of the Group in aggregate during the FY2023 was 31.2% of the total purchases of the Group and the largest supplier included therein amounted to 9.7%.

None of the Directors, their close associates or any Shareholders, which to the knowledge of the Directors owned more than 5% of the Company's total number of issued shares, had a beneficial interest in any of the Group's five largest suppliers.

The percentage of revenue attributable to the five largest customers of the Group in aggregate during the FY2023 was 11.0% of the total revenue of the Group and the largest customer included therein amounted to 2.5%.

None of the Directors, their close associates or any Shareholders, which to the knowledge of the Directors owned more than 5% of the Company's total number of issued shares, had a beneficial interest in any of the Group's five largest customers.

## EMPLOYEES AND REMUNERATION POLICY

Employees are one of the most important assets of the Group and their contribution and support are valuable. The Group would regularly review the employees' compensation and benefits packages to reward and recognise those with outstanding performance. Other fringe benefits, such as employees' provident fund and share options, if applicable, are provided to attract and retain talents helping the Group in success.

The Group had 589 employees in Mainland China, nine employees in Hong Kong and 171 employees in Korea as at 31 December 2023* (31 December 2022: 581, five and Nil, respectively). The Group encourages high productivity and remunerates its employees based on their qualifications, work experience, prevailing market rates and individual contribution to the Group. Incentives in the form of bonuses and share options may also be offered to eligible employees based on individual performance. Pursuant to applicable laws and regulations, the Group has participated in relevant defined contribution retirement schemes administered by responsible government authorities in the PRC for its employees there and provided a mandatory provident fund scheme to employees in Hong Kong.

* Three of the employees are employed in both Mainland China and Hong Kong

## SHARE OPTION SCHEME

A share option scheme (the "**Share Option Scheme**") of the Company was approved and conditionally adopted pursuant to the resolutions passed by the Shareholders on 2 June 2021 for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since the date it became unconditional and up to the date of this annual report.

The number of share options available for grant under the Share Option Scheme was 116,269,558 share options as at 1 January 2023 and 31 December 2023.

A summary of the salient terms of the Share Option Scheme is set forth below:

| | | |
|---|---|---|
| 1 | Purpose | To enable the Company to grant options to the Eligible Participants as incentives or rewards for their contribution or potential contribution to the Group. |
| 2 | Who may join | The Board may, at its absolute discretion, offer options to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme to:<br>(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group (the "**Executive**"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (the "**Employee**");<br>(b) a director or proposed director (including an independent non-executive director) of any member of the Group;<br>(c) a direct or indirect shareholder of any member of the Group;<br>(d) a supplier of goods or services to any member of the Group;<br>(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;<br>(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and<br>(g) an associate of any of the persons referred to in paragraphs (a) to (c) above.<br>(collectively, the "**Eligible Participants**") |

| | | |
|---|---|---|
| 3 | Maximum number of Shares | The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as of the date on which dealings in the Shares first commenced on the Stock Exchange, being 116,269,558 Shares. As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 116,269,558 Shares, representing approximately 9.39% of the total number of issued Shares as at such date. |
| 4 | Maximum number of option to each participant | No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Shares in issue from time to time. Any further grant of options above such limit shall be separately approved by the Shareholders in general meeting with such Eligible Participant and his close associates or associates, as applicable, abstaining from voting. |
| 5 | Offer period and amount payable for options | An offer shall remain open for acceptance by an Eligible Participant for a period of 28 days from the offer date, provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. The amount payable on acceptance of an option is HK$1.0. |
| 6 | Exercise of option | An option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the option period in the manner as set out in the Share Option Scheme by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and specifying the number of Shares in respect of which it is exercised. The exercise of any option may be subject to a vesting schedule to be determined by the Board in its absolute discretion at time of offering the grant of an option and shall be specified in the offer letter. |

| | | |
|---|---|---|
| 7 | Subscription price | As the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than whichever is the highest of:<br>(a) the nominal value of a Share;<br>(b) the closing price of a Share in the Stock Exchange's daily quotation sheet on the date of grant; and<br>(c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days (as defined in the Listing Rules) immediately preceding the date of grant. |
| 8 | Life of the Share Option Scheme | Subject to earlier termination by the Company in general meeting or the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, i.e. 16 July 2021, and will therefore expire on 16 July 2031, after which no further option will be granted or offered. |

For further details of the Share Option Scheme, please refer to the section headed "Post-IPO Share Option Scheme" in Appendix V "Statutory and General Information" to the Prospectus.

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries or consolidated affiliated entities purchased, sold or redeemed any of the Company's listed securities during the FY2023.

## 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 date of this annual report, there is sufficient public float of not less than 25% of the Shares are in the hands of the public as required under the Listing Rules.

## PRE-EMPTIVE RIGHTS

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

## DONATIONS

Donations by the Group for charitable during the FY2023 amounted to approximately RMB40,000.

## SUBSEQUENT EVENT

There has been no significant event affecting the Group which occurred after 31 December 2023 and up to the date of this annual report which requires disclosure.

## PRINCIPAL RISKS AND UNCERTAINTIES

The business of the Group is subject to various risks and uncertainties, and they are set forth in details in the Prospectus. Such risks include the following:

– The sales are dependent on the PRC and global economy, and any significant economic downturn in the PRC and global economy could adversely affect our business, financial condition, results of operations and prospects.

– The levels of demand and supply of pearlescent pigment products and synthetic mica powder are not entirely within the Group's control and are generally affected by the paint, chemical and cosmetics industries, the overall macroeconomic factors in the pearlescent pigment and synthetic mica powder industries and the production capacity of other manufacturers.

– The business and financial conditions of the Group depend on our ability to effectively manage our inventories and the turnover rate of our inventories is susceptible to the overall demand of customers and changes in consumer choice and preference which are beyond our control.

In addition, the Group is exposed to a variety of financial risks due to its business operation and activities, including and without limitation, foreign currency risk, credit risk, liquidity risk and interest rate risk. Further information on the Group's exposure to foreign exchange risk and other financial risks is set forth in the paragraphs under "Foreign Exchange Exposure" above and note 6 to the consolidated financial statements in this annual report.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the FY2023, and up to date of this annual report, the Board was not aware of any non-compliance with the applicable laws and regulations, including the Articles, the laws of the Cayman Islands, the Listing Rules, other laws and regulations, which have a significant impact on the Company.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group supports sustainable development by conducting its business in an environmentally responsible manner. Discussions on the Group's environmental policies and performance during the FY2023 are set forth in the paragraphs under "Environmental, Social and Governance Report" in this annual report. These discussions form part of this Directors' Report.

## INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from the independent non-executive Directors the confirmations of their independence pursuant to Rule 3.13 of the Listing Rules. On this basis, all the independent non-executive Directors are considered to be independent for the purpose of the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has entered or has proposed to enter into any service agreements with the Company or any other member of the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Further information on the five highest paid individuals in the Group and the Directors' emoluments is set forth in notes 13 and 14 to the consolidated financial statements in this annual report. The emolument policy of the employees of the Group is set up by the senior management of the Group on the basis of their merit, qualifications and competence. The emoluments of the Directors and senior management of the Company are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and prevailing market conditions.

## DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS AND ARRANGEMENTS

There were no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his or her connected entity has or had a material interest, whether directly or indirectly, subsisted as at the end of the year or at any time during the FY2023.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Group were entered into or existed during the FY2023.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed below in the paragraphs under "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company", at no time during the FY2023 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2023, the interests and short positions of the Directors and chief executives of the Company or any of their associates in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) recorded into the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in Appendix C3 to the Listing Rules, were as follows:

| Name of Directors | Nature of interest and capacity | Number of the Shares or underlying Shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Mr SU Ertian ("**Mr SU**") | Interest in controlled corporation(1) | 301,155,800 | 24.31% |
| | Interest in controlled corporation(2) | 45,337,828 | 3.66% |
| | Interest in controlled corporation(3) | 27,234,172 | 2.20% |
| | Interest in controlled corporation(4) | 1,068,000 | 0.09% |
| | Interest in controlled corporation(5) | 24,241,200 | 1.96% |
| | Interest in controlled corporation(6) | 20,010,948 | 1.61% |
| | Beneficial owner | 3,053,000 | 0.24% |
| Mr JIN Zengqin ("**Mr JIN**") | Interest in controlled corporation(5) | 24,241,200 | 1.96% |
| | Interest in controlled corporation(6) | 20,010,948 | 1.61% |
| Mr BAI Zhihuan | Beneficial owner | 694,000 | 0.06% |
| Mr HU Yongxiang ("**Mr HU**") | Interest in controlled corporation(7) | 19,285,200 | 1.56% |

Notes:

(1) The Shares are owned by Hongzun Int Investment Group Ltd. ("**Hongzun International**"), which is wholly-owned by Guangxi Hongzun Investment Group Co., Ltd. ("**Hongzun Investment**"). Hongzun Investment is owned as to 99.0% and 1.0% by Mr. SU and Ms. WANG Huan, the spouse of Mr SU, respectively. Therefore, Mr SU is deemed to be interested in all the Shares held by Hongzun Investment for the purpose of the SFO. Mr SU is the chairman of Hongzun Investment. Mr SU is the sole director of Hongzun Investment and Hongzun International, respectively.

(2) Ertian International Investment Limited ("**Ertian International**") is wholly-owned by Mr SU. Therefore, Mr SU is deemed to be interested in all the Shares held by Ertian International for the purpose of the SFO. Mr SU is the sole director of Ertian International.

# DIRECTORS' REPORT

(3) Seven Color Pearl Investment Limited ("**Seven Color Pearl Investment**") is wholly-owned by Mr SU. Therefore, Mr SU is deemed to be interested in all the Shares held by Seven Color Pearl Investment for the purpose of the SFO. Mr SU is the sole director of Seven Color Pearl Investment.

(4) The general partner of Liuzhou Lianrun Enterprise Management Partnership Enterprise (Limited Partnership) ("**Liuzhou Lianrun LP**") is Mr SU who owns 11,000 shares of Liuzhou Lianrun LP. The original 21 individual equity holders of Guangxi Chesir Pearl Material Co., Ltd. ("**Chesir Pearl**"), who are limited partners and independent third parties, own 167,000 shares of Liuzhou Lianrun LP. Therefore, Mr SU is deemed to be interested in all the Shares held by Liuzhou Lianrun LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner contributed more than one-third of the capital contribution of Liuzhou Lianrun LP.

(5) The general partner of Liuzhou Qise Enterprise Management Partnership Enterprise (Limited Partnership) ("**Liuzhou Qise LP**") is Mr SU who owns 10,000 shares of Liuzhou Qise LP. Mr JIN, being one of the limited partners, owns 1,565,200 shares of Liuzhou Qise LP and the original 12 individual equity holders of Chesir Pearl, who are limited partners and independent third parties, own 2,465,000 shares of Liuzhou Qise LP. Therefore, Mr SU and Mr JIN are deemed to be interested in all the Shares held by Liuzhou Qise LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner (except Mr JIN) contributed more than one-third of the capital contribution of Liuzhou Qise LP.

(6) The general partner of Liuzhou Colorful Enterprise Management Partnership Enterprise (Limited Partnership) ("**Liuzhou Colorful LP**") is Mr SU who owns 10,000 shares of Liuzhou Colorful LP. Mr JIN, being one of the limited partners, owns 1,500,000 shares of Liuzhou Colorful LP and the original 11 individual equity holders of Chesir Pearl, who are limited partners and independent third parties, own 1,825,158 shares of Liuzhou Colorful LP. Therefore, Mr SU and Mr JIN are deemed to be interested in all the Shares held by of Liuzhou Colorful LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner (except Mr JIN) contributed more than one-third of the capital contribution of Liuzhou Colorful LP.

(7) Mr HU is the sole director of China Banyan Capital INT Holdings Limited who owns 50 shares of China Banyan Capital INT Holdings Limited. The original 12 individual equity holders of Chesir Pearl, who are independent third parties, hold 49,950 shares of China Banyan Capital INT Holdings Limited. Therefore, Mr HU is deemed to be interested in the Shares held by China Banyan Capital INT Holdings Limited.

Save as disclosed above, as at 31 December 2023, none of the Directors or the chief executives of the Company and any of their associates had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which was required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be recorded into the register kept by the Company pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2023, the persons or corporations (not being a Director or chief executive of the Company) who had an interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

| Name of shareholders | Nature of interest and capacity | Number of the Shares or underlying Shares held | Approximate percentage of shareholding |
|---|---|---|---|
| Hongzun International | Beneficial owner | 301,155,800 | 24.31% |
| Hongzun Investment | Interest in controlled corporation(1) | 301,155,800 | 24.31% |
| Ms WANG Huan ("**Ms WANG**") | Spouse interest(2) | 422,100,948 | 34.07% |
| Guangxi Energy Co., Ltd. (formerly known as Guangxi Guidong Electric Power Co., Ltd. ) ("**Guangxi Energy**") | Beneficial owner(3) | 107,178,000 | 8.65% |
| Guangxi Guangtou Zhengrun Development Group Co., Ltd. (formerly known as Guangxi Zhengrun Development Group Co., Ltd.) | Interest in controlled corporation(3) | 107,178,000 | 8.65% |
| Guangxi Investment Group Co., Ltd. ("**Guangxi Investment**") | Interest in controlled corporation(3)(4) | 166,656,344 | 13.45% |

Notes:

(1) Hongzun International is wholly-owned by Hongzun Investment. Therefore, Hongzun Investment is deemed to be interested in all the Shares held by Hongzun International for the purpose of the SFO. Mr SU is the sole director of Hongzun International and Hongzun Investment, respectively.

(2) Ms WANG was deemed to be interested in all the Shares held by her spouse, Mr SU.

(3) Guangxi Energy is a listed company on the Shanghai Stock Exchange (stock code: 600310) and is owned as to 33.91% by Guangxi Guangtou Zhengrun Development Group Co., Ltd. (which in turn is wholly-owned by Guangxi Investment) as at 31 December 2023. Therefore, Guangxi Guangtou Zhengrun Development Group Co., Ltd and Guangxi Investment are deemed to be interested in all the Shares held by Guangxi Energy. Guangxi Investment is wholly-owned by the PRC Government.

(4) GX Land & Sea Connectivity Holding Ltd ("**GX Land & Sea**") owns 59,478,344 Shares as at 31 December 2023. GX Land & Sea is wholly-owned by Guangxi Land & Sea Connectivity Fund (Limited Partnership), which is a limited partnership established in the PRC. Guangxi Land & Sea Connectivity Fund (Limited Partnership) is owned as to 49.5% by Guangtou Capital Management Group Co., Ltd. and 49.5% by China Development Bank Capital Co., Ltd. and its general partner is Guangxi Luhai New Channel Equity Investment Management Center (Limited Partnership). Guangxi Luhai New Channel Equity Investment Management Center (Limited Partnership) is owned as to 39.6% by Yououbi Investment Management (Shanghai) Co., Ltd. and its general partner is Guangxi Luhai New Channel Equity Investment Management Co., Ltd., which in turn is owned as to 35.0% by China Development Bank Capital Co., Ltd. and 35.0% by Guangtou Capital Management Group Co., Ltd. Guangtou Capital Management Group Co., Ltd. is owned as to 51.0% by Guangxi Financial Investment Group Co., Ltd. and 49.0% by Guangxi Investment. Guangxi Investment is also the sole shareholder of Guangxi Financial Investment Group Co., Ltd, and is wholly-owned by the PRC Government. China Development Bank Capital Co., Ltd is wholly-owned by China Development Bank, which is owned as to 36.5% by the Ministry of Finance of the PRC and 34.7% by Central Huijin Investment Ltd. Central Huijin Investment Ltd. is wholly-owned by China Investment Co., Ltd., which in turn is wholly-owned by the PRC government. Therefore, Guangxi Investment is deemed to be interested in all the Shares held by GX Land & Sea.

# DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2023, the Directors were not aware of any other person or corporation having an interests or short positions in the Shares and underlying Shares as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## PERMITTED INDEMNITY PROVISION

The Articles provide that every Director or other officers of the Company shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has maintained appropriate Directors' and officers' liability insurance in respect of relevant legal actions against the Directors and officers.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the FY2023, none of the Directors is interested in any business apart from the Group's business that competes or is likely to compete, either directly or indirectly, with the Group's business.

### Deed of Non-Competition

Each of the Controlling Shareholders and the executive Directors has entered into the Deed of Non-competition (the "**Deed of Non-Competition**") on 2 June 2021 in favour of the Company. Detailed information on the Deed of Non-Competition is set forth in the section headed "Relationship with our Controlling Shareholders – Deed of Non-Competition" in the Prospectus.

Each of the Controlling Shareholders has made an annual confirmation to the Company that during the FY2023, all the Controlling Shareholders (as defined in the Prospectus) have duly complied with the undertaking provisions under the Deed of Non-Competition. The Controlling Shareholders have also provided the independent non-executive Directors with information on their business activities for review.

The independent non-executive Directors have reviewed the confirmations and information provided by the Controlling Shareholders and are satisfied that the undertaking provisions under the Deed of Non-Competition were fully complied with and enforced during the FY2023.

The Company is not aware of any other matters regarding the compliance and enforcement of the Deed of Non-Competition.

## CHANGES IN INFORMATION OF DIRECTORS

Save as disclosed in the section headed "Biographical Information on Directors and Senior Management" of this annual report, there were no other changes in the Directors' information subsequent to the publication of the interim report of the Company for the six months ended 30 June 2023.

## AUDITOR

There has been no change of the auditor of the Company since the Listing Date. A resolution will be submitted to the forthcoming Annual General Meeting to re-appoint Messrs. RSM Hong Kong as the auditor of the Company.

## ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting will be held on Friday, 28 June 2024. The register of members of the Company will be closed from Tuesday, 25 June 2024 to Friday, 28 June 2024, both days inclusive, during which period no transfer of Shares will be registered. In order to determine the entitlement to attend and vote at the Annual General Meeting, all share transfer documents accompanies by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 June 2024.

On behalf of the Board
**SU Ertian**
*Chairman and Chief Executive Officer*

Hong Kong, 28 March 2024

# CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the Shareholders on the corporate governance of the Company for the FY2023.

## CORPORATE GOVERNANCE CULTURE AND STRATEGY

The Company understands that corporate culture is the intrinsic driving force for the Company to achieve sustainable development, and that it can unite consensus, give full play to the initiative and creativity of employees, create greater value for the Company, and lay a solid foundation for the Company's sustained and long-lasting development.

The Group's culture is based on four core values: integrity, innovation, leadership and harmony.

"Integrity" refers to honesty, trustworthiness and compliance with the law. We speak of credit and commitment, respect the spirit of contract, follow fairness and justice, comply with professional ethics and corporate rules and regulations, so as to build quality and brand with integrity, win the trust of customers, win the trust of partners, and win social reputation with integrity.

"Innovation" refers to the courage to innovate and pursue excellence. We focus on researching cutting-edge technologies, applying new technologies and equipment, deepening the integration of "industry-academia-research-application" cooperation with domestic and foreign research institutes and universities, accelerating the transformation and application of our own innovations, continuing to promote product research and development, optimising product structure, deepening market expansion, and broadening the room for growth, so as to ensure that the Company's foundation is everlasting.

"Leadership" refers to leadership in talent, technology, market and scale. With the spirit of leadership in every aspect, we will improve the quality standard of our products in all aspects to create a better experience and higher quality value for our customers.

"Harmony" refers to solidarity, co-operation and win-win situation. We adhere to the "people-oriented" principle, respect and care for our employees, provide them with room for development, and realise a harmonious relationship with them. We actively fulfil our social responsibilities and contribute to the building of a harmonious society, so as to achieve a harmonious relationship with the society and a harmonious relationship between technological development and nature.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

— satisfactory and sustainable returns to Shareholders;
— that the interests of those who deal with the Company are safeguarded;
— that overall business risk is understood and managed appropriately;
— the delivery of high-quality products and services to the satisfaction of customers; and
— that high standards of ethics are maintained.

# CORPORATE GOVERNANCE REPORT

We have identified and are satisfied with the vision, mission, values and strategies that are integral to the Group's culture and have instilled this culture throughout the Group to guide our daily operations and the behaviour of our employees. The Company believes that this will maximise returns to shareholders in the long term and will also benefit employees, business partners and the communities in which the Company operates.

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "**CG Code**") contained in Part 2 of Appendix C1 (formerly known as Appendix 14) to the Listing Rules as the basis of the Company's corporate governance practices.

In the opinion of the Directors, throughout the FY2023, the Company has complied with the applicable code provisions as set out in the CG Code, except for code provision C.2.1 which is explained in the relevant paragraphs of this Corporate Governance Report.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 (formerly known as Appendix 10) to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, they have confirmed that they have complied with the Model Code throughout the FY2023.

## BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

# CORPORATE GOVERNANCE REPORT

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

## Board Composition

During the FY2023 and up to the date of this Annual Report, the Board comprised the following Directors:

### Executive Directors:

Mr SU Ertian *(Chairman and Chief Executive Officer)*
Mr JIN Zengqin
Mr ZHOU Fangchao (Joint company secretary)
Mr BAI Zhihuan (Vice President)
Ms ZENG Zhu

### Non-executive Directors:

Mr HU Yongxiang

### Independent non-executive Directors:

Mr HUI Chi Fung
Professor HAN Gaorong
Mr LEUNG Kwai Wah Alex

The biographical information of the Directors is set forth in the section headed "Biographical Information on Directors and Senior Management" in this annual report. To the best knowledge of the Company, there is no relationship (including financial, business, family or other material/relevant relationship(s)) among the members of the Board.

## Board Meetings

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

The attendance records of the Directors at the Board meetings held during the FY2023 are set forth in the paragraph under "Attendance Records of Directors and Board Committee Members" below.

### Chairman and Chief Executive Officer

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr SU Ertian, the chairman of the Board and the chief executive officer of the Company, currently performs these two roles.

Mr SU has been responsible for formulating overall business development strategies and leading overall operations of the Group and has been instrumental to business growth of the Group. The Board therefore considers that vesting the roles of both chairman and chief executive officer in Mr SU is beneficial to business development of the Group by ensuring consistent leadership and enabling more effective and efficient overall strategic planning. The senior management team and the Board will provide check and balance of power and authority.

The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

### Independent non-executive Directors

During the FY2023, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors (representing one-third of the Board) with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

### Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism which sets forth the processes and procedures to ensure a strong independent element on the Board, which allows the Board to effectively exercise independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

During the FY2023, all Directors have completed the independence evaluation in the form of a questionnaire individually. The Board Independence Evaluation Report was presented to the Board and the evaluation results were satisfactory.

# CORPORATE GOVERNANCE REPORT

During the FY2023, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

## Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

All the Directors are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Articles also provides that all Directors appointed to fill a casual vacancy shall hold office until the first annual general meeting after appointment. The retiring Directors shall be eligible for re-election.

## Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

## Continuous Professional Development of Directors

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

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the FY2023, the Company organised training sessions for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, corporate governance and regulatory updates. In addition, relevant reading materials including compliance manual, legal and regulatory updates, seminar handouts have been provided to the Directors for their reference and studying.

The training records of the Directors during the FY2023 are summarised as follows:

| Directors | Type of Training (Note) |
|---|---|
| ***Executive Directors*** | |
| Mr SU Ertian | A/B |
| Mr JIN Zengqin | A/B |
| Mr ZHOU Fangchao | A/B |
| Mr BAI Zhihuan | A/B |
| Ms ZENG Zhu | A/B |
| ***Non-executive Directors*** | |
| Mr HU Yongxiang | A/B |
| ***Independent non-executive Directors*** | |
| Mr HUI Chi Fung | A/B |
| Professor HAN Gaorong | A/B |
| Mr LEUNG Kwai Wah Alex | A/B |

*Note:*

*Types of Training*

*A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops*

*B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications*

## BOARD COMMITTEES

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

The list of the chairman and members of each Board committee is set forth under "Corporate Information" in this annual report.

### Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr HUI Chi Fung, Professor HAN Gaorong and Mr LEUNG Kwai Wah Alex. Mr HUI Chi Fung is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set forth in the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held three meetings to review, in respect of the FY2023, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditor and engagement of non-audit services and relevant scope of works and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

The attendance records of the Audit Committee are set forth in the paragraph under "Attendance Records of Directors and Board Committee Members" below.

### Remuneration Committee

The Remuneration Committee consists of three members, namely Mr LEUNG Kwai Wah Alex, Professor HAN Gaorong and Mr ZHOU Fangchao. Mr LEUNG Kwai Wah Alex is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set forth in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration.

The Remuneration Committee met once during the FY2023 to consider the relevant matters regarding the remuneration policy and the remuneration packages of the executive Directors and senior management.

The Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of executive Directors are also determined with reference to the Company's performance and profitability, the prevailing market conditions and the performance or contribution of each executive Director. The remuneration for the executive Directors comprises basic salary, pensions and discretionary bonus. Executive Directors shall receive options to be granted under the Company's share option scheme. The remuneration policy for non-executive Director and independent non-executive Directors is to ensure that non-executive Director and independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs, including their participation in Board committees. The remuneration for the non-executive Director and independent non-executive Directors mainly comprises Director's fee which is determined with reference to their duties and responsibilities by the Board. Individual Directors and senior management have not been involved in deciding their own remuneration.

The attendance records of the Remuneration Committee are set forth in the paragraph under "Attendance Records of Directors and Board Committee Members" below.

The remuneration paid to the members of the senior management (excluding executive Directors), whose biographical details are set out in the section headed "Biographical Information on Directors and Senior Management" in this annual report, by band for the FY2023 is set out below:

| Remuneration Band | Number of Individuals |
|---|---|
| Nil to HK$1,000,000 | 4 |
| HK$1,000,001 to HK$2,000,000 | 0 |
| HK$2,000,001 to HK$3,000,000 | 1 |

## Nomination Committee

The Nomination Committee consists of three members, namely Mr SU Ertian, Professor HAN Gaorong and Mr HUI Chi Fung. Mr SU Ertian is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set forth in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, reviewing the board diversity policy of the Company (the "**Board Diversity Policy**") and the director nomination policy of the Company (the "**Director Nomination Policy**") and assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

# CORPORATE GOVERNANCE REPORT

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee met once during the FY2023 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for re-election at the Annual General Meeting, to review the Board Diversity Policy and Director Nomination Policy. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

The attendance records of the Nomination Committee are set forth in the paragraph under "Attendance Records of Directors and Board Committee Members" below.

## Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

– At least one member of the Board shall be female.

– At least one-third of the members of the Board shall be independent non-executive Directors.

An analysis of the Board's current composition based on the measurable objectives is set out below:

**Gender**
Male: 8
Female: 1

**Age Group**
31-40: 2
41-50: 1
51-60: 3
61-70: 2
71-80: 1

**Designation**
Executive Directors: 5
Non-executive Directors: 1
Independent Non-executive Directors: 3

**Educational Background**
Business Administration: 3
Account and Finance: 2
Other: 4

**Nationality**
Chinese: 9

**Business Experience**
Accounting & Finance: 2
Experience related to the Company's business: 7

The Nomination Committee and the Board are of the view that the current composition of the Board has achieved the objectives set in the Board Diversity Policy.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

## Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this Annual Report:

| | Female | Male |
|---|---|---|
| **Board** | 11% | 89% |
| | (1) | (8) |
| **Senior Management** | 0% | 100% |
| | (0) | (16) |
| **Other employees** | 23.77% | 76.23% |
| | (178) | (571) |
| **Overall workforce** | 23.27% | 76.73% |
| | (178) | (587) |

The Board had targeted to have at least one female director and considers that the above current gender diversity is satisfactory.

Details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report on page 85 of this Annual Report.

# CORPORATE GOVERNANCE REPORT

## Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and nomination process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The nomination process set out in the Director Nomination Policy is as follows:

### Appointment of New Director

(i) The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.

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

(iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(v) For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

### Re-election of Director at General Meeting

(i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring Director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to Shareholders in respect of the proposed re-election of Director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as Director at the general meeting, the relevant information of the candidate will be disclosed in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

The Director Nomination Policy sets out the criteria for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

During the FY2023, the Directors re-elected were subject to a stringent nomination process in accordance with the Director Nomination Policy and the Board Diversity Policy, to ensure the Board possesses the necessary skills, experience and knowledge in alignment with the Company's strategy.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

During the FY2023, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## Attendance Records of Directors and Board Committee Members

A summary of the attendance records of the Directors at the Board, Board Committee and general meetings held during the FY2023 is set forth below:

| | Attendance/Number of Meetings | | | | | |
|---|---|---|---|---|---|---|
| **Name of Directors** | **Board** | **Audit Committee** | **Nomination Committee** | **Remuneration Committee** | **Annual General Meeting** | **Extraordinary General Meeting** |
| Mr SU Ertian | 5/5 | – | 1/1 | – | 1/1 | 1/1 |
| Mr JIN Zengqin | 5/5 | – | – | – | 1/1 | 1/1 |
| Mr ZHOU Fangchao | 5/5 | – | – | 1/1 | 1/1 | 1/1 |
| Mr BAI Zhihuan | 5/5 | – | – | – | 1/1 | 1/1 |
| Ms ZENG Zhu | 5/5 | – | – | – | 1/1 | 1/1 |
| Mr HU Yongxiang | 5/5 | – | – | – | 1/1 | 1/1 |
| Mr HUI Chi Fung | 5/5 | 3/3 | 1/1 | – | 1/1 | 1/1 |
| Professor HAN Gaorong | 5/5 | 3/3 | 1/1 | 1/1 | 1/1 | 1/1 |
| Mr LEUNG Kwai Wah Alex | 5/5 | 3/3 | – | 1/1 | 1/1 | 1/1 |

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of other Directors during the FY2023.

The independent non-executive Directors and non-executive Director have attended general meetings of the Company to gain and develop a balanced understanding of the view of the Shareholders.

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Company adopted internal control system and risk management system which are designed and implemented to address the specific business needs and operating environment and to minimise the risk exposure of the Group. The Company have adopted different internal guidelines, along with written policies and procedures, to monitor and reduce the risks which are relevant to the control our daily business operations and the improvement in the corporate governance of the Company. The Group's senior management team is responsible for identifying and analysing the risks associated with business operations, preparing risk mitigation plans and assessing and reporting to the Board their effectiveness. The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Company established an internal audit department (the "**Internal Audit Department**") under the supervision of the Audit Committee. The Internal Audit Department is established to overseeing the daily and effective implementation of internal control measures and reporting to our Audit Committee on any compliance issue and the record of compliance in this respect.

Through the Audit Committee and the internal audit team, the Board has conducted an annual review on the effectiveness of risk management and internal control systems of the Group for the FY2023.

Based on the results of the internal control review for the FY2023 and the assessment of the Audit Committee thereon, no significant deficiency in risk management and internal controls systems are noted. The Board therefore is satisfied that appropriate and effective risk management and internal control systems have been maintained for the FY2023.

## ANTI-BRIBERY AND CORRUPTION RISK MANAGEMENT

The Company has implemented appropriate policies and procedures to address any potential bribery and corruption issues. All department heads and managers are required to report to the Internal Audit Department any bribery or corruption incidents. The Company has also established a whistle blower policy for reporting any alleged bribery and corruption. The internal anti-bribery and corruption policies and procedures include the following:

(a) requiring the Company's employees to report any bribery and corruption incident when they became aware of such incident;

(b) prohibiting the Company's employees and other engaged working parties from receiving bribes, either financial benefit or benefit-in-kind such as gift;

(c) performing financial and internal audits by the Internal Audit Department and external audit agency on a regular basis to identity any risk of bribery and corruption;

(d) evaluating the anti-bribery and corruption policies by Internal Audit Department to ensure the effectiveness; and

(e) providing training to the Company's employees on how to identify and report misconduct.

In case the Internal Audit Department has identified a material risk of bribery and corruption, it will initiate investigation with the assistance from one of the Company's executive Directors. The investigation results will be reported to the Board (including independent non-executive Directors). The Internal Audit Department is required to keep all information about and related to the investigation, including the fact that an investigation has been filed, the nature of the complaint and the persons involved, in strict confidence. The Company also requires all new employees to go through anti-bribery training as part of their orientation training programmes.

Any staff who is in breach of the Company's anti-bribery and corruption policy would be dismissed, and the Company may report the matter to the relevant governmental authorities should there be a violation of the applicable laws and regulations.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the FY2023 with the support of the accounting and finance team.

The Directors have prepared the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set forth in the "Independent Auditors' Report" of this annual report.

## AUDITORS' REMUNERATION

The remuneration paid and payable to the external auditor of the Company in respect of audit services and non-audit services for the FY2023 is set forth below:

| | Amount *(RMB'000)* |
|---|---|
| Audit services | |
| – by RSM Hong Kong | 1,900 |
| – by RSM network firm | 718 |
| | 2,618 |
| Non-audit services | |
| – Review of interim financial information | 580 |
| – Tax compliance service | 21 |
| – Perform a limited assurance engagement on the reconciliation statements of the statements of financial position and related statement of comprehensive income, review of unaudited proforma financial information and working capital forecast for a major transaction | 1,100 |
| – Consultancy service of Environmental, Social and Governance Reporting | 91 |
| Total | 4,410 |

## JOINT COMPANY SECRETARIES

Mr ZHOU Fangchao, an executive Director and a joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board's policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Ms CHEUNG Ka Lun Karen, a manager of Tricor Services Limited (a company secretarial service provider), as the joint company secretary to assist Mr ZHOU to discharge his duties as company secretary of the Company. Mr ZHOU is the primary contact person at the Company which would work and communicate with Ms CHEUNG on the Company's corporate governance and secretarial and administrative matters.

For the FY2023, Mr ZHOU and Ms CHEUNG have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

### Convening an Extraordinary General Meeting and putting forward proposals

Pursuant to Article 58 of the Articles, extraordinary general meetings may be convened by the Board whenever it thinks fit. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, on a one vote per share basis, shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business or resolution specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may convene a physical meeting at only one location which will be the principal place of the meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Putting Forward Enquiries to the Board

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

### Contact Details

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

| | |
|---|---|
| Address: | Room 2703, 27/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong<br>(For the attention of the Board of Directors) |
| Telephone: | (852) 3797 7882 |
| Email: | zhoufangchao@chesir.com |

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

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

### Shareholders' Communication Policy

The Company has in place a shareholders' communication policy (the "**Shareholders' Communication Policy**"). The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively. The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results were satisfactory.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

#### (a) Corporate Communication

"Corporate Communication" as defined under the Listing Rules refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to the following documents of the Company: (a) the Directors' report, annual accounts together with a copy of the auditor's report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form. The Corporate Communication of the Company will be published on its website (www.chesir.com) and the Stock Exchange's website (www.hkexnews.hk) in a timely manner as required by the Listing Rules. A notice of publication of the Website Version of Corporate Communications, in both English and Chinese, will be sent by the Company to Shareholders by email or by post (only if the Company does not possess the functional email address of a Shareholder) on the publication date of the Corporate Communications.

For those Shareholders who wish to receive a printed version of all future Corporate Communications or, if for any reason, have difficulty in gaining access to the Company's website, the Company will, upon receipt of request in writing by the Shareholder to the Company's branch share registrar in Hong Kong at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or by email to 6616-ecom@hk.tricorglobal.com, send future Corporate Communications and/or the relevant Corporate Communications (as the case may be) to such Shareholders in printed form free of charge.

### (b) Announcements and Other Documents pursuant to the Listing Rules

The Company shall publish announcements (on inside information, corporate actions and transactions etc.) and other documents (e.g. Articles) on the Stock Exchange's website in a timely manner in accordance with the Listing Rules.

### (c) Corporate Websites

Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website (www.chesir.com) under the "Investor Relations" section. Other corporate information about the Company's business developments, goals and strategies, corporate news, marketing events and press release in relation to community services will also be available on the Company's websites.

### (d) Shareholders' Meetings

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its Shareholders. The Company shall provide Shareholders with relevant information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Where appropriate or required, the Chairman of the Board and other Board members, the chairmen of board committees or their delegates, and the external auditors should attend general meetings of the Company to answer Shareholders' questions (if any). The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval.

### (e) Shareholders' Enquiries

***Enquiries about Shareholdings***

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar, Tricor Investor Services Limited, via its online holding enquiry service at http://www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at (852) 2980 1333, or go in person to its public counter at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

## Amendments to Constitutional Documents

During the FY2023, the Company amended its memorandum of association and Articles in order to bring them up to date and in line with the amendments made to the Listing Rules and the applicable laws of the Cayman Islands among others. Details of the amendments are set out in the circular dated 28 April 2023 to the Shareholders. An up-to-date version of the Company's memorandum of association and Articles is also available on the Company's website and the Stock Exchange's website.

## Dividend Policy

The Company has adopted a Dividend Policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval. Such details have been disclosed in the section headed "Directors' Report" in this annual report.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## BOARD STATEMENT

Dear Stakeholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Global New Material International Holdings Limited (the "**Company**" which together with its subsidiaries, collectively, the "**Group**"), I am pleased to present the third Environmental, Social and Governance Report (the "**ESG Report**") of the Group for the year ended 31 December 2023 (the "**FY2023**") for the purpose of demonstrating the Group's policies, practices, measures and performance on environmental, social and governance ("**ESG"**) areas.

The Group is committed to implementing various initiatives to address the ESG concerns as we recognise that all of us, as well as our next generation, could be affected by ESG issues and the sustainability issue. As such, as an influential listed company, the Board has the responsibility to evaluate and identify the Group's ESG-related risks and ensure that appropriate and effective ESG risk management and internal control systems are in place. Thus, sound ESG can indeed create value for the development of the Group.

The ESG Report demonstrates the Group's continuous commitments to strengthen its performance in sustainability, such as environmental performance and targets, corporate governance, community participation, customers' satisfaction and care to the employees of the Group.

The Board is responsible for the implementation of the ESG initiatives and the monitoring of the effectiveness of the ESG strategies, directions and policies of the Group. The Board believes that an effective corporate governance structure is important in order to achieve a successful integration and effective management of sustainability for the business development of the Group. In order to effectively manage and monitor the performance of the Group in the ESG areas, the Board has identified the ESG-related issues and potential risks and the Board would analyse and review on a regular basis the ESG risks and opportunities, performance, progress, goals and the ESG-targets of the Group.

The Board will also ensure the effectiveness of the Group's ESG risk management and internal control system and actively communicate with internal and external stakeholders and to understand their expectations and requirements. The Board believes that the Group's ESG engagement will be highly beneficial to the long-term development the Group. The Board will continue to review and monitor the Group's ESG performance and provide consistent, comparable and reliable ESG information to the stakeholders on an annual basis.

For and on behalf of the Board

**SU Ertian,**
*Chairman and Chief Executive Officer*
**Global New Material International Holdings Limited**

Hong Kong, 28 March 2024

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

### Reporting Scope and Boundary

The ESG Report discloses ESG related policies and initiatives for the core and principle operations (i.e. production, research and development and sales of pearlescent material and synthetic micas in Guangxi Zhuang Autonomous Region, the People's Republic of China ("**PRC**") and Republic of Korea ("**Korea**"). As of 31 December 2023, more than 90% of the total number of the employees of the Group are based in the Group's production facilities and business presence in Guangxi Zhuang Autonomous Region and Korea.

The ESG Report covers key performance indicators ("**KPIs**") of the corporate office ("**office**") and the representative project(s) ("**project(s)**") of the Group during the FY2023.

The reporting scope and boundary of the ESG Report is updated for the FY2023 due to the acquisition of CQV Co., Ltd., a company incorporated in Korea and a non-wholly owned subsidiary of the Company, by the Company in August 2023.

### Reporting Basis and Principles

The ESG Report is prepared in accordance with the ESG Reporting Guide (the "**ESG Guide**") as set out in Appendix C2 to the Listing Rules and is based on the four reporting principles - materiality, quantitative, balance and consistency:

- "Materiality" Principle:

  The Group identifies material ESG issues by stakeholder engagement and materiality assessment. Details are set forth in the section headed "Materiality Assessment".

- "Quantitative" Principle:

  Information is presented with quantitative measure, whenever feasible, including information on the standards, methodologies, assumptions used, and provision of comparative data.

- "Balance" Principle:

  The ESG Report identifies the achievements obtained and challenges faced by the Group.

- "Consistency" Principle:

  The ESG Report is the third ESG report of the Group. The ESG Report will continue to use consistent methodologies and environmental performance indicators for comparisons in the following years, except for the improvement of methodologies.

The ESG Report has complied with all "comply or explain" provisions outlined in the ESG Guide.

The information contained in the ESG Report is derived from internal documents and statistics of the Group, as well as the control, management, and operations information provided by the subsidiaries in accordance with the Group's internal management systems. A complete content index is appended to the last section of this ESG Report for reference. The ESG Report is prepared and published in both Chinese and English at the Stock Exchange's website (www.hkexnews.hk) and the Company's website (http://www.chesir.com). In the event of contradiction or inconsistency between the Chinese version and the English version, the Chinese version shall prevail.

### Review and Approval

The Board acknowledges its responsibility for ensuring the accuracy and completeness of the ESG Report and to the best of their knowledge, the ESG Report has addressed all relevant material issues and has fairly presented the ESG performance of the Group for the FY2023. The ESG Report was reviewed and approved by the Board on 28 March 2024. The ESG Report has also been reviewed by the ESG Committee of the Board, and the members of which include Mr. SU Ertian (苏尔田先生), Mr. JIN Zengqin (金增勤先生), Mr. ZHOU Fangchao (周方超先生) and Mr. BAI Zhihuan (白植焕先生).

### Feedback

Your feedback on this report is welcomed. Should you have any opinion or suggestion on the ESG Report, please feel free to liaise with the Group as follows:

| | |
|---|---|
| Address: | Room 2703, 27/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong |
| Telephone: | (852) 3797 7882 |
| Email: | zhoufangchao@chesir.com |

## ABOUT THE GROUP

The Group focuses on the research and development ("**R&D**"), production and sales of pearlescent materials and synthetic mica. Pearlescent materials are widely used in aerospace, military, automotive, ship anti-corrosion, medicine, cosmetics, electronics, food and other fields. Synthetic mica is not only the raw material for the production of pearlescent materials, but also for the production of insulating materials, functional fillers, refractory materials and nickel-metal hydride batteries. The Group is the participating unit of the strategic emerging materials - synthetic mica project, "Strong Industrial Foundation Project (工業強基工程)", organised by the Ministry of Industry and Information Technology in the PRC. The Group has mastered the world's leading and core technology for the production of pearlescent materials and synthetic mica, with 151 core patented technologies and formed a complete range of pearlescent materials and synthetic mica products series. Now the Group has formed a marketing network covering major countries in the world, and its products are exported to over 100 countries and regions around the world.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group actively follows the "Dual Carbon Strategy" of the "14th Five Year Plan" and adopts the concept of "Green Manufacturing and Eco-Enterprise" in promoting sustainable development. The Group's comprehensive strengths rank among the top in the global pearlescent pigment industry. The Group has received numerous awards, including but without limitation, the "National Green Factory" (國家級綠色工廠), "2023 GBA ESG Entrepreneurs 30" (2023大灣區ESG企業家30), "2023 China's 500 Most Valuable Brands" (2023中國500最具價值品牌) and EcoVadis Gold medal.

To build a green and sustainable future, the Group adheres to the principle of the harmonious coexistence with nature by leveraging the core effects of technological innovations. The Group constantly promotes sustainable business operations and development through technological innovations so that each kind of products of the Group, as well as the production process involved, are healthy and safe to our end users and environmental-friendly, and each colour is originated from our lives and nature, so as to safeguard the health of customers.


## GOVERNANCE STRUCTURE

The Board is committed to fulfilling its ESG responsibility and has the overall responsibility to implement and monitor the effectiveness of the Group's ESG strategies and reporting systems. The Group has established the Corporate Governance System Policy (企業管治制度), Environmental Protection Management System Policy (環境保護管理制度), and the Social Responsibility Management System Policy (社會責任管理制度).

The terms of reference of the ESG Committee include the following:

| | |
|---|---|
| ESG Committee, established by the Board of Directors | • Oversees the ESG strategies, policies, objectives and targets<br>• Allocates ESG Committee to identify material environmental, social and governance matters through review and assessment of internal operations<br>• Develop and review the Group's ESG responsibilities, vision, strategies, frameworks, principles and policies<br>• Enhance the materiality assessment and reporting process to ensure and implement and enforce the ESG policy approved by the Board on a continuous basis<br>• Review and approve the company's ESG goals, and regularly review the achievement of ESG goals<br>• Review the ESG megatrend and related risks and opportunities, and assess the adequacy and effectiveness of the Group's ESG-related structure and business model<br>• Adopt and update the Group's ESG policies as necessary and ensure that these policies are current and in compliance with applicable laws, regulations and regulatory requirements and international standards |
| Senior Management | • Advises and supports the Board on ESG matters, strategies, policies<br>• Overall management and monitoring of ESG performance and targets |
| Department Heads and Employees | • Take record and monitor ESG KPIs<br>• Implement ESG policies and related initiatives |

The ESG Committee reviews and evaluates the Group's ESG performance on a regular basis and the annual ESG Report will then be reviewed and approved by the Board.

## STAKEHOLDER ENGAGEMENT

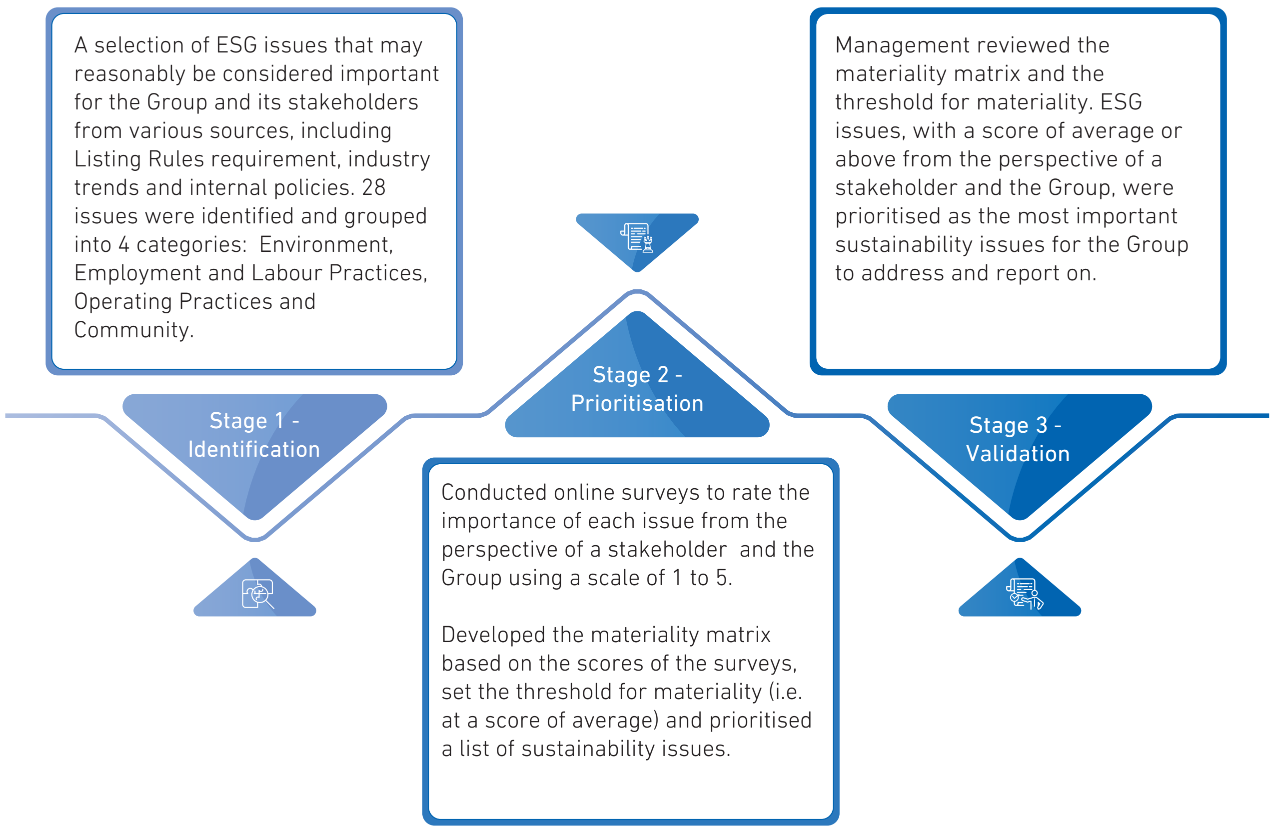
Stakeholders' opinions are the solid foundation of the Group's sustainable development and success. Stakeholder engagement helps the Group to formulate strategies which meet the needs and the expectations of the stakeholders, thereby enhancing the ability to identify potential risks, and strengthen important relationships. The Group actively communicates with its stakeholders through various channels, as set forth below.

| Stakeholders | Communication Channel |
|---|---|
| Government and regulatory agencies | • Annual reports, interim reports, ESG reports and other public information<br>• Supervision and inspection |
| Shareholders and investors | • Annual general meetings and other general meetings<br>• Company website<br>• Press releases/announcements<br>• Annual reports, interim reports, ESG reports and other public information |
| Employees | • Training<br>• Meetings<br>• Performance evaluation<br>• Surveys |
| Customers | • Fax, email and telephone<br>• Meetings |
| Suppliers/Subcontractors/Business Partners | • Meetings<br>• Site visits<br>• Surveys<br>• Trainings |
| Community or Non-governmental Organisations (NGOs) | • Sponsorships and Donations<br>• ESG reports |
| Media | • Enquiry mailbox |

## MATERIALITY ASSESSMENT

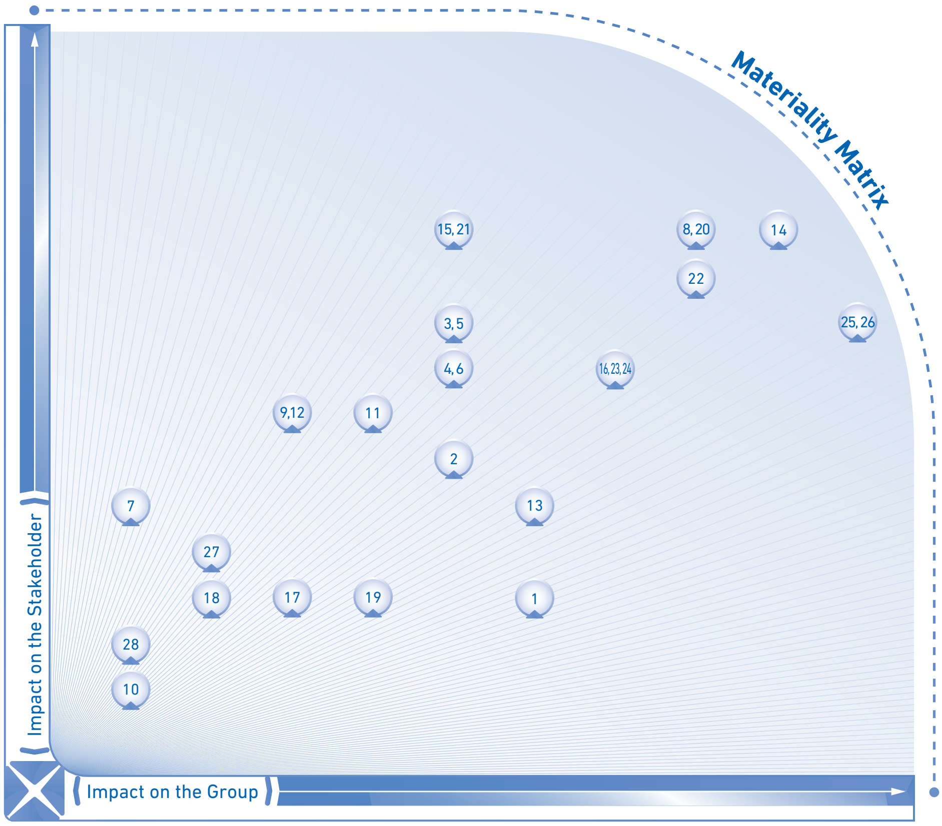
In preparing the ESG Report, the Group directly engaged with the following stakeholders as part of the materiality assessment process to identify and prioritise the issues to be included in the ESG Report which would have significant impact on the Group's business and its stakeholders.

### Process



## Materiality Matrix

Based on the materiality matrix, the Board believes that the most pertinent sustainability issues which are material to both the Group and its stakeholders include the following:




| | | | |
|---|---|---|---|
| Environmental Compliance | Occupational Health and Safety | Child Labour and Forced Labour | Customer Satisfaction |
| Intellectual Property | Safety of Services/Products | Quality of Services/Products | Business Ethics |

| | | | | | |
|---|---|---|---|---|---|
| 1 | Air Emissions | 11 | Employment Practices | 21 | Customer Satisfaction |
| 2 | Greenhouse Gas ("**GHG**") Emissions | 12 | Diversity and Equal Opportunities | 22 | Intellectual Property |
| 3 | Effluents Management | 13 | Anti-discrimination | 23 | Safety of Services/Products |
| 4 | Waste Management | 14 | Staff Occupational Health and Safety | 24 | Quality of Services/Products |
| 5 | Energy Efficiency | 15 | Staff Development and Training | 25 | Business Ethics |
| 6 | Water Efficiency | 16 | Child Labour and Forced Labour | 26 | Anti-corruption Training for Management and Employees |
| 7 | Use of Materials and Packaging Materials | 17 | Responsible Supply Chain Management | 27 | Contributions to the Society |
| 8 | Environmental Compliance | 18 | Environmental Friendliness on Products or Services Purchased | 28 | Communication and Connection with Local Community |
| 9 | Land Use, Pollution and Restoration | 19 | Compliance with Regulations on Marketing, Product and Service Labelling | | |
| 10 | Climate Change | 20 | Customers' Privacy and Confidentiality | | |

## OUR ENVIRONMENT

### Sustainability Overview and Management Objectives

The Board believes that the success of the Group is based on the principles of sustainability through providing quality products to the customers, whilst striving to preserve the surrounding environment and support the communities through its social responsibility practices.

The Group has established a set of management policies and adopted various measures on environmental protection and natural resources reservation to help ensure the sustainable development and operation of the business. The Group's environmental management system was also accredited with ISO 14001:2015 certification. The Group actively manages its business in an environmentally and socially responsible manner which is consistent with the policies adopted. The following sections present a summary of these policies and their implementation during the FY2023.

Guangxi Chesir Pearl Material Co., Ltd., which is the principal subsidiary of the Group, was accredited as a "Green Factory" (綠色工廠) by the Ministry of Industry and Information Technology of the PRC (國家工業和信息化廳) for its adoption of effective measures to control the disturbance to the surrounding environment and as a recognition for the green development through technological innovation. The products of the Group are healthy, environmental-friendly and safe, and are beneficial to maintaining sustainable development.


During the Reporting Period, CQV was also awarded a Gold medal by the international environmental organization EcoVadis in recognition of its efforts in sustainable development. EcoVadis evaluates corporate social responsibility compliance based on 21 criteria that cover 4 main themes: environment, fair labour and human rights, ethics and sustainable procurement. We have been committed to meeting the requirements of EcoVadis, fulfilling corporate social responsibilities through practical actions, and winning the trust of customers and business partners.


In addition, the Group promotes energy savings and carbon reduction and is committed to achieving sustainable business operations. To this end, the Group has set clear yearly and long-term emission reduction targets; for long-term reduction targets, compared with the 2021 baseline, the Group has to achieve the following targets by 2027:

- To further optimize product structure and resources consumption structure, air emission intensity per unit of production will reduce by about 10%; hazardous and non-hazardous waste disposal per unit of production will reduce by about 20%; and water consumption intensity per unit of production will reduce by about 30%, so as to reduce the impacts of pollutants and discharge on the environment and climate.

## GROUP POLICIES RELATING TO ENVIRONMENTAL PROTECTION

As the major production and operations of the Group are based in the PRC and Korea, its business operations are subject to the local environmental laws and regulations. To comply with the relevant environmental laws and regulations and minimise the impact on the environment, as well as to report on the environmental and social aspects of the Group's business operations, the Group has established the ESG Committee to identify the relevant environmental risks and opportunities and set clear environmental targets. The Group has also developed a series of environmental management programs and policies for the purpose of identifying the key aspects of the Group's operations (the "**Key Aspects**") which may have significant impacts on the environment in light of applicable laws and regulations.

- Pollution Prevention and Control Management System (污染防治管理制度)
- Environmental Protection Management System (環境保護管理制度)
- Waste Emission Reduction Management System (廢棄物減排管理制度)
- Company Greenhouse Gas Emissions Management Guide (公司溫室氣體排放管理規定)
- Greenhouse Gas Emissions Management Policy (溫室氣體排放管理政策)
- Chesir Energy Management System (七色珠光能源管理制度)
- Energy Management Target Indicators (能源管理目標指標)
- Special Contingency Plan for Environmental Emergencies (突發環境事故專項應急預案)
- Contingency Plan for Environmental Pollution Emergencies (突發環境污染事故應急預案)
- Contingency Plan for Environmental Emergencies (突發環境事件應急預案)
- Environmental Management Policy (環境管理政策)

As required by the ESG Committee, representatives from each department within the Group will meet regularly to review its key processes and identify possible Key Aspects underlying the operation of the relevant departments. The Group's Safety and Environmental Department (安全環境部) is responsible to establish and manage the Group's Environmental Protection Management Network (環保管理網絡). They will then discuss with the ESG Committee members and senior management regarding any Key Aspects identified, and design appropriate measures aimed at reducing the environmental impacts arising from such Key Aspects. These measures will be documented, and the relevant personnel will be provided with suitable training and regular supervision and reporting to the senior management from time to time to ensure effective implementation of the measures. The Safety and Environmental Department is also responsible for educating and providing training to the staff to enhance their knowledge and skills regarding environmental protection.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## EMISSIONS AND WASTE GENERATION

### Air Emissions

The principal types of emission and waste generated from the Group's business operations are set forth below and the Group considers that the emission and waste would not have any significant adverse impact on the environment.

Emission data of Nitrogen oxides ($NO_x$), Sulphur oxides ($SO_x$), and Particulate matter (PM) are set forth in the table below:

| Air Pollutant[1] | Unit | 2023 | 2022 |
|---|---|---|---|
| Nitrogen oxides ("$NO_x$") | kg | **4,600.95^** | 4,190.94 |
| Sulphur oxides ("$SO_x$") | kg | **34.43*** | Insignificant |
| Particulate matter ("PM") | kg | **0.63** | 0.17 |

Note:

^ NOx emission is mainly from the emissions of the vehicles.

* SOx emission is mainly from the emissions of the vehicles.

The Group will continue to improve our internal data collection mechanism for a complete disclosure in the coming years.

### Waste Generation

- **Non-hazardous waste: The Group's production facilities and office operations generate paper, household waste, kitchen waste, and other related wastage**

  It generates non-hazardous domestic wastes and non-hazardous sludge in the Group's production facilities and office operations. The non-hazardous sludge is generated from production processes and general refuse such as paper, plastic bags, and plastic bottles are generated from offices operations. Sludge is generated from wastewater treatment tank sedimentation, and will be collected by the contractor and reused to manufacture bricks. Household wastes and food wastes from the staff canteen are also generated from our production facilities and business operations in Guangxi Zhuang Autonomous Region. The food waste from the staff canteen will be collected and reused, and the leftovers will be used to feed the poultry.

1 Only covers the emissions from boilers and vehicles' petrol consumption, and the estimation is based on "Technical Guidelines for Compiling the Air Pollutant Inventory of Road Mobile Vehicles (Trial)" (「道路機動車大氣污染物排放清單編製技術指南 (試行)」) issued by Ministry of Environmental Protection of the PRC and "How to Prepare an ESG Report? - Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Hong Kong Stock Exchange.

The Executive Department of the Group is responsible for the handling and treatment of the office and domestic wastes (including used batteries, toner cartridges, ink cartridges, fluorescent tubes and, general refuse). Domestic wastes discharged by our production facilities and offices in ordinary means are in compliance with the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the requirements of "Pollutant Control Standards for Domestic Waste Landfills" (《生活垃圾填埋場污染物控制標準》), "Pollutant Control Standard for Domestic Waste Incineration" (《生活垃圾焚燒污染物控制標準》) and Korea's "Wastes Control Act" (《廢物管制法》).

Wastes generated from the Group's production facilities and business presence are as follows:

| Wastes | Handling Method | Unit | 2023 | 2022 |
|---|---|---|---|---|
| Non-hazardous wastes* | Handled by contractors | tonnes | 8,515 | 7,205 |
| Domestic wastes | Landfill | tonnes | N/A | N/A |
| Intensity | | tonnes per square meter floor area | 0.113 | 0.128 |
| Total | | tonnes | 8,515 | 7,205 |
| Wastewater | Discharged | $m^3$ | 740,035 | 685,187 |

Note:

* Non-hazardous wastes are mainly from the sludge.

Looking ahead, the Group will continue to refine its wastes reduction measures and disclose relevant results where appropriate. The Group will perform sample testing regularly to ensure the parameters outlined by the wastewater discharge license are fulfilled before discharging to the municipal wastewater treatment plant for further treatment. We will also seek continuous improvement in waste and wastewater management performance by setting appropriate goals and objectives in the future and conduct further assessment on a regular basis.

The Group's waste management strategy focuses on legal disposal, reduction, and reuse of wastes. All waste disposals and processing must be carried out by government-certified service providers pursuant to PRC and Korea laws and regulations. Recyclable wastes are collected according to classifications and are delivered to the qualified vendor where appropriate.

- **Greenhouse gas (GHG) emissions which include carbon dioxide ($CO_2$), methane ($CH_4$), and nitrous oxide ($N_2O$)**

  These greenhouse gases are primarily emitted from the use of electricity and fuels derived from fossil fuels within the production facilities in Guangxi and Korea, and only part of our production process is required to involve the operation of the boiler. Since the catering facility of our production facilities is currently using Liquefied Natural Gas (LNG) and electricity for cooking purposes, it will not generate significant smokes and fumes. Greenhouse gases are also derived from vehicles of guests who visit our production facility and offices and the delivery of our products to customers. All motor vehicles used for transportation of personnel and other business purposes are Liquefied Petroleum Gas (LPG) minibuses that have achieved the national emission standard in "National Phase V" (國五). The Group has adopted the use of electrical carts for transportation within the production facility to reduce the direct emission of GHG. Therefore, emissions of GHG from vehicles in Scope 1 are not considered material.

### Greenhouse Gas (GHG) Emissions

In response to the community's increasing concern on GHG emissions, climate changes, and other related issues, the Group is committed to implementing and maintaining a high standard of GHG management. The below table sets forth the key statistics relating to GHG emissions[2] of the Group. The GHG emissions[3] are as follows:

| | Unit | 2023 | 2022 |
|---|---|---|---|
| Scope 1[4] | tonnes $CO_2$-equivalent | **52.78** | 24.97 |
| Scope 2[5] | tonnes $CO_2$-equivalent | **83,456.86** | 80,716.33 |
| Total | tonnes $CO_2$-equivalent | **83,509.64** | 80,741.30 |
| Intensity | tonnes $CO_2$-equivalent per floor area ($m^2$)[6] | **1.11** | 1.43 |

Scope 1 emission from fossil fuel consumption in our operations only accounted for approximately 0.06% of our total emissions, including diesel consumption of our vehicles and the emission from boilers. The Group will continue to assess, record, and disclose its GHG emissions annually and will continue to refine the data collection system and develop reduction strategies if appropriate based on the projection of data in the coming years.

2 GHG emission data is presented in carbon dioxide equivalent and the calculation of GHG emissions during the FY2023 was estimated based on the amount of electricity and fuels consumed and the relevant emission factors.

3 The calculation of greenhouse gas emissions refers to the "General Guideline of the Greenhouse Gas Emissions Accounting Method and Reporting of Other Industrial Enterprises (《工業其他行業企業溫室氣體排放核算方法與報告指南》)" issued by the National Development and Reform Commission and the "Emission Reduction Project of China Regional Grid Baseline Emission Factor (《中國區域電網基準線排放因數》)" issued by the Department of Climate Change, the Ministry of Ecology and Environment of the People's Republic of China.

4 Scope 1: Direct emission from the business operations owned or controlled by the Group, such as emissions from petrol consumption of vehicles and boilers.

5 Scope 2: The "indirect energy" emissions from the internal purchased electricity consumption by the Group.

6 Covers the Group's production facilities and business in Guangxi Zhuang Autonomous Region and Korea.

- **Measures undertaken to reduce emissions and wastes**

  To minimise the environmental impacts brought by the mentioned emissions and wastes, the Group has adopted the following measures during the FY2023 to supplement its "Pollution Prevention and Control Management System" (污染防治管理制度), "Environmental Protection Management System" (環境保護管理制度) and other related policies:

  o Setting yearly emission limitation targets for pollutants (such as NOx from boiler emission; water consumption, COD, ammonium-nitrogen and total phosphorus in domestic wastewater discharge; noise nuisance from equipment; and sludge treatment in "Hazardous and Non-hazardous Waste Emission Reduction Management Systems" (有害及無害廢棄物減排管理制度);

  o Utilising electric vehicles within the production facility as opposed to fossil fuel-powered vehicles to reduce emissions from sources;

  o Developing a better understanding of the Group's suppliers and taking into account their environmental and social responsibility practices in the recruitment process. Please refer to the sub-section headed "Social Responsibility Operational Practices – Supply Chain Management" below for further details; and

  o Periodically arranging environmental compliance inspections to ensure the Group's compliance with the applicable PRC environmental laws relating to the Group's operations.

  In addition, the Group implements comprehensive management of personnel and equipment in each business premises, and manages risks related to air quality enhancement. Regular training is provided to on-site personnel regarding air pollution and emission management to enhance their awareness and practical capabilities in managing air pollutants. In addition, we also manage and optimize the operation of air pollution prevention and control facilities to minimize emissions of air pollutants. We not only utilize low-NOx boilers, but also use "Power Demand Control" to operate motor inverter systems to save energy. In pursuit of carbon neutrality, the Group has also switched from liquefied petroleum gas fuel to more environmentally friendly liquefied natural gas to further reduce carbon emissions. Despite the higher cost of LNG, it aligns with our corporate commitment to environmental concerns.

  For policies and measures undertaken by the Group to reduce the use of electricity, please refer to the paragraph headed "Resources consumption — Electricity" below.

## ENVIRONMENTAL COMPLIANCE

After the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》) came into effect on 1 January 2018, the Group is subject to the obligation to pay environmental pollution tax for pollutants directly discharged to the environment, such as air pollutants and water pollutants.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the FY2023, the Group has complied with the following laws and regulations:

- Environmental Protection Law of the PRC (《中華人民共和國環境保護法》);
- Energy Conservation Law of the PRC (《中華人民共和國節約能源法》);
- Circular Economy Promotion Law of the PRC (《中華人民共和國可循環經濟促進法》):
- Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》);
- Ambient Air Quality Standards of the PRC (《中華人民共和國環境空氣質量標準》);
- Boiler Air Pollutant Emission Standards of the PRC (《中華人民共和國鍋爐大氣污染物排放標準》);
- Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》);
- Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》);
- Prevention and Control of Noise Pollution Law of the PRC (《中華人民共和國噪聲污染防治法》);
- Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》);
- Water Law of the PRC (《中華人民共和國水法》);
- Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》);
- Framework Act on Environmental Policy (《環境政策基本法》):
- Environmental Impact Assessment Act (《環境影響評價法》);
- Environment Dispute Mediation Act (《環境糾紛調解法》);
- Clean Air Conservation Act (《大氣環境保全法》);
- Water Environment Conservation Act (《水質和水體保全法》);
- Wastes Control Act (《廢棄物管理法》);
- Toxic Chemicals Control Act (《有害化學物質管理法》); and
- Other relevant environmental laws and regulations in all material respects.

During the FY2023, the Group was not aware of any non-compliance issues regarding emission, noise, waste disposal, and sewage discharge. The Group believes that the emissions, disposed wastes, and discharged sewage during our business operation does not pose material impact on the surrounding environment. To avoid any occurrences of non-compliance in the future, we will continue to uphold our environmental awareness.

## ENVIRONMENTAL IMPACTS FROM OUR OPERATIONS AND MITIGATION MEASURES

The generation of air pollutants, GHG, noise emissions and sewage discharge from the operation of our production facilities complies with the requirements under the relevant PRC laws and regulations. In order to minimise the environmental impact of the Group's business operation on the surrounding environment, the Group has established the "Pollution Prevention and Control Management System" (污染防治管理制度) and "Environmental Protection Management System" (環境保護管理制度). The Group has also established yearly emission limitation targets for specific pollutants in "Hazardous and Non-hazardous Waste Emission Reduction Management Systems" (有害及無害廢棄物減排管理制度).

List of Hazardous and Non-hazardous Waste Emission Reduction Management Systems in FY2023 is set forth below:

| Types of Pollution Prevention and Control Measures | Pollution source | Pollutants | 2023 Targets | Compliance |
|---|---|---|---|---|
| **Air Pollution** | *Boiler exhaust gas* | Exhaust gas volume | **3,980m³/a** | ✓ |
| | | $NO_x$ | **4.6t/a** | ✓ |
| **Water** | *Production and domestic wastewater* | Wastewater Consumption | **700,000m³/a** | ✓ |
| | | CODcr | **12.80t/a** | ✓ |
| | | Ammonium-Nitrogen | **0.35t/a** | ✓ |
| | | Oil & Grease | **Insignificant** | ✓ |
| | | Total Phosphorus | **Insignificant** | ✓ |
| **Noise** | *Noise level from Equipment* | LAeq | **A** | ✓ |
| **Solid Waste** | | *Wastewater Treatment Sludge* | **8,300t/a** | ✓ |

During the FY2023, to the best of the Directors' knowledge, the Group has achieved all yearly emission limitation targets and no complaint has been received from its customers or other parties in respect of environmental protection issues. In addition, the Group has not experienced any material environmental incidents arising from its business operations. During the FY2023, no material administrative sanctions or penalties were imposed upon the Group for the violation of environmental laws or regulations which had an adverse impact on its operations.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Nature Resources

The Group recognises the importance of efficient resources consumption and continuously aims at streamlining its operations to develop an energy-efficient culture. "Chesir Energy Management System" (七色珠光能源管理制度) is established according to the national energy work policies and energy management standards, to save energy, reduce material consumption, eliminate waste, further improve energy utilization efficiency, and utilise resources safely and reasonably while taking into consideration of the actual needs of production and material consumption of the Group.

The Group has been identifying environmental issues in various areas from the business planning stage and actively formulates measures to deal with environmental risks. In addition, in order to implement environmental management, we annually formulate and implement facility improvement investment plans to reduce energy consumption and greenhouse gas emissions. Under these policies and practices, the Group has established 2 strategic directions: energy conservation and emission reduction, and environmental management through the establishment of eco-friendly infrastructure. Concrete projects are underway to achieve the feasibility of these strategies.

The principal types of resources utilised by the Group in the operation and management of production facility and offices during the FY2023, and the measures undertaken by the Group to promote efficient usage are discussed below:

## Water Consumption and Efficiency

Freshwater is an important resource on earth. The Group's office utilised an insignificant amount of water resources as compared to domestic water usage. We are not aware of any freshwater supply difficulties. During the FY2023, the aggregate volume of production water and domestic water consumed within the Group's facility and office amounted to approximately 3,280 thousand tonnes.

| | Unit | 2023 | 2022 |
|---|---|---|---|
| Water | Thousand tonnes | 3,280.15 | 3,209.49 |
| Total | Thousand tonnes | 3,280.15 | 3,209.49 |
| Intensity | Thousand tonnes per square meter floor area | 0.043 | 0.057 |

In order to ensure efficient and sustainable use of water resources, the Group has closely monitored the usage of water resources. The Group has also adopted internal guidelines and provides staff education to promote water conservation, as well as routinely inspects and upkeeps water supply facilities. In addition, we reduce water consumption in high-water-consuming processes by reusing water and using it for other activities. For example, wastewater and septic tank water are 100% reused for pond replenishment. We also collect rainwater and use it for septic tanks.

## Energy Efficiency

Electricity is necessary for the offices' operation and production facilities and is the main source of energy of the Group. The Group has adopted an internal policy during the FY2023 to promote conservative energy uses. Under the policy, the usage of electricity in our production facility is continuously monitored and there are clear guidelines on the operating hours and energy-saving measures in respect of electrical appliances such as office equipment, lighting, and air conditioning facilities in the public area of the Group. To monitor the usage of electricity effectively, data on electricity usage is collected and analysed in the monthly meeting in respect of electricity usage.

Various types of equipment used in the industrial field are one of the sources of energy consumption and usually exhibit low energy efficiency. In view of this, the Group has introduced higher energy efficiency and lower power consumption pumps, dust collectors, air compressors and other equipment at major operational sites, thereby achieving energy conservation and reductions in greenhouse gas emissions.

The Group's energy utilisation data during the FY2023 is as follows:

| | Unit | 2023 | 2022 |
|---|---|---|---|
| Direct energy consumption | MWh | 202.02 | 82.87 |
| Indirect energy consumption | MWh | 130,456.46 | 130,077.46 |
| Total energy consumption | MWh | 130,658.48 | 130,160.34 |
| Intensity | MWh per square meter floor area | 1.73 | 2.31 |

## Paper and Packaging Materials

The Group's operation does not involve a high level of paper and packaging materials consumption. The Group mainly adopts paper for offices and general use within the Group. Paper waste is the major source of our non-hazardous waste in the offices.

Papers are also consumed in the Group's offices for research and development, design, and clerical work. To facilitate efficient paper usage, the Group has established the following measures:

- Introduced and promoted the concept of "Green Factory" and "Green Office" in the Group.
- The Group has also put in place internal guidelines and systems regarding paper conservation. Under these guidelines, the use of paper by different departments of the Group will be accounted for and monitored, and paper-saving measures such as double-sided printing, using smaller sheets for sundry uses, paperless internal correspondences, etc have been impletmented.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the FY2023, the paper consumption of the Group is as follows:

| | Unit | 2023 | 2022 |
|---|---|---|---|
| Paper consumption | kg | 4,130.2 | 1,685.0 |

### Investment in Environmental Management

To develop a better and greener environment, in FY2023, the Group planted 20 trees and 320 $m^2$ of lawn in the Guangxi Production Plant, while CQV planted 218 trees within its factory premises. in order to integrate renewable energy into the power grid in its production facility area, and to achieve the goal of energy conservation and emission reduction, our rooftop distributed photovoltaic project has officially launched in 2022, and such project will continue to expand to other newly built factories, to achieve green production. The Group has reserved funds for our environmental management on monitoring and testing, cleaning, and sewage treatment. The Group will continue to invest in the low-carbon and sustainable methods for production and product development.

In addition, the Group will optimize factory operations and create smart factories by using technologies such as artificial intelligence, big data, and the Internet of Things. The application of technology can also contribute to environmental management. These technologies can assist companies in achieving goals in energy conservation and emission reduction, production optimization, predictive maintenance, smart supply chain management, and environmental monitoring and governance, thereby reducing resource waste, lowering carbon emissions, lowering costs, and enhancing the enterprises' sustainable competitiveness.

## Climate Change

Climate change is one of the biggest global challenges faced by society, and we must act now for our climate and our communities. In recent years, extreme weather, such as strong winds and heavy rainfall, as well as tides and floods, have become the focus around the world. Logistics and supply chains are particularly vulnerable. Heavy rainfall, rising tides and floods can cause serious damage to assets such as buildings, warehouses and goods in storage which results in material financial losses. Although such incidents are beyond everyone's control, the Group believes that all stakeholders should work together to address climate change, which will also be regarded as one of the most significant risks to the world in the next five years.

The Group have made reference to the Task Force on Climate-related Financial Disclosure (TCFD) recommendations to provide transparent and credible climate-related information to stakeholders, including investors and capital providers. The Group's business units have also strengthened the analysis on the specific risks and opportunities to the pearlescent pigment industry resulting from climate change.

The Group understands that climate change may have significant impacts on our operations. To better understand the potential impacts of climate change on our business operation, we have conducted climate scenario analysis for two horizons for 2030 and 2050, under the following pathways:

(1) RCP2.6, SSP1, and IEA Sustainable Development Scenario supplemented by the Net-Zero Emissions by 2050 case

(2) RCP8.5, SSP5, and IEA Stated Policies Scenario

The scope of the scenario analysis includes all of the business under the Group's operational control. Based on the Group's business nature, we have identified the following parameters that are most relevant to our operations.

a) Renewable energy – The proportion of renewable energy used by the Group affects the amount of carbon offset required and GHG emissions;

b) Electric vehicles (EV) – The cost required for replacing existing fleets with EVs and the cost-savings brought by EVs; and

c) Extreme weather – The increase in the frequency of extreme weather (e.g. Heavy rainstorm signals and typhoons) may affect the business operations of the Group and the future income.

The Group will gradually increase the usage of renewable energy and it is expected that EVs will dominate the global car and light truck market by 2060. In the future, most of the private cars owned by the Group will be shifted to EVs, and the Group has already installed new energy electric vehicle charging piles next to the gate of the facilities and the Group will encourage the employees to use new energy electric vehicles for traveling. Therefore, we do not expect that relevant policies and price fluctuations will have a significant impact on the Group.

The Group essentially plans to respond to local government initiatives and follows local governments' emission reduction requirements. The Group aims to reduce emissions by around 3% by 2026 and ensure the Group's GHG emissions will comply with the local requirements on or before 2030. The Group's target is to achieve carbon neutrality by 2060 in the PRC. The Group is committed to continuously improving energy efficiency, applying professional knowledge to improve on-site efficiency, and maintaining efficient management support.

### Action on climate change

Action on responding to climate change is embedded in the Group's business strategy and is reflected in the governance and management processes of the Company. The index table below outlines the core elements of the Group's response to the TCFD recommendations in this ESG Report.

| Core element | The Group's response |
|---|---|
| Governance | • Setting up ESG Committee and carrying out regular meeting<br>• Integrating ESG topics (including climate-related issues) in corporate decision making |
| Strategy | • Understanding climate risks through scenario analysis<br>• Identifying risks and opportunities in the low-carbon transition |
| Risk Management | • Risk Management Committee to discuss ESG risks<br>• Preparing for the transition to a low-carbon economic<br>• Implementing measures to eliminate physical climate risks |
| Metrics and Targets | • Investing in transition enablers<br>• Creating value in the low-carbon transition |

When developing these scenarios, the Group has identified a series of climate-related risks and opportunities relevant to our assets and services, to understand that in which scenarios such risks and opportunities are significant to the Group's business operation. These transition and physical risks are discussed in the sections below.

| | Risks | Opportunities |
|---|---|---|
| Short-term (0 – 1 year) | • Physical risks from extreme weather events<br>• Securing the skills and capability required to implement climate strategy | • New services to help communities decarbonize<br>• New technologies to enhance the performance of operation and energy efficiency |
| Medium-term (5 years) | • Transition risks - Implementation of low-carbon policies for the operation<br>• Transition risks - Supply and demand for certain commodities, products, and services may change as climate-related risks and opportunities are increasingly taken into account. | • Transitioning to low carbon economy market to meet government decarbonisation targets<br>• Opportunities arising from transition enablers |

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| | Risks | Opportunities |
|---|---|---|
| Medium to long-term (5+ years) | • Transition risks - Potential new regulations and policies<br>• Transition risks - Development and use of emerging technologies may increase the operational costs, and reduce the Groups' competitiveness<br>• Transition risks – the Group's reputation may be impacted due to changing customer or community perceptions of the Group's contribution to or detraction from the transition to a lower-carbon economy. | • Transitioning to low carbon economy market to meet government decarbonisation targets<br>• Opportunities arising from transition enablers<br>• To work as a pioneer in the industry and build up the relevant reputations |

Physical climate risks can potentially undermine the integrity of the Group's assets or directly interrupt the production of pearlescent pigment products. As such, the Group has set up a range of measures in place to enhance its resistance against physical climate risks, including but without limitation, the "Contingency plans and Preparation Instructions for Environmental Emergencies" (突發環境事件應急預案及編製説明) and "Contingency plans for natural disaster incidents" (自然災害事故專項應急預案) for extreme weather or emergency.

The Group also supports the 17 Sustainable Development Goals (SDGs) and the 10 key principles of the United Nations Global Compact (UNGC), and strives to put them into practice, including climate action, support a precautionary approach to environmental challenges, promote greater environmental responsibility, and encourage the development and diffusion of environmentally friendly technologies.

Transition risks can potentially increase the Group's operational cost and legal risks due to the change of policy, technological development, digitalization, related risks which affect supply and the Group's reputation due to public perceptions. The Group has already identified the relevant risks and will keep monitoring the market and policy updates regularly. The Group has also planned to invest according to the market needs and take this as an opportunity for long-term development.

Over the years, a series of measures have been adopted to put in place along the Group value chain to help the Company prepare for extreme climate events. These measures are deployed according to local conditions, taking into consideration the type of assets, the location and the relevance. These are summarised in the table below:

| Relevant part of the value chain | Relevant measures |
|---|---|
| Supply chain<br>Operation | Diversify material and food supply from multiple suppliers, sources, and countries.<br>Monitor and inspect assets regularly<br>- Maintain a Contingency Plan for all facilities<br><br>To address extreme heat and increased temperature:<br>- Maintain cooling equipment in good conditions<br>- Refurbish cooling towers to improve efficiency in the long term<br>- Review working hours of workers to provide better working environment<br>- Increase drinking fountains for employees and workers<br><br>To address the risk of water shortage and drought:<br>- To maintain water tank(s) in facilities<br>- Purchase drinking water with sufficient storage<br><br>To address flooding risks:<br>- Build protection walls for facilities and run-off water storage<br>- Deploy anti-flooding measures suitable for the assets, including drainage systems, flood gates, and flood barriers<br>- Put in place additional coverage with tarps, grass planting, and drainage works to avoid soil erosion<br>- For assets that are downstream of dams, continuous control and monitor river rate flow, and maintain regular communication with the local authority on its flood discharge schedule and flowrate |
| Retails business and services | Through engagement events, inform customers of the initiatives already undertaken to increase system resilience<br>- Establish an extreme weather response protocol and coordinating system and conduct regular drills and post-extreme weather incident reviews to ensure smooth execution of contingency plans<br>- Utilise the emergency restoration system, enabling rapid construction of temporary masts that can shorten the restoration of power supply<br>- Enhance the communication capacity of customer services, particularly post-incident customer communication |

#### Path to 2060

The Group is prepared to address the threats climate change poses both to its business and to the communities that it serves. The Group has laid out a transparent trajectory of the performance against the trajectory required to meet a science-based target. The Group is determined to deliver and provide safe, reliable, and affordable pearlescent pigment products for its customers and the Group is fully aware of the importance of the environmental responsibility. The Group is ready to raise the targets, wherever possible, to strengthen the decarbonisation targets at least every five years. We will also continue to invest in greening projects such as energy conservation and emission reduction, technological transformation and upgrading projects, plantation of trees and lawn shrubs in our Phase 2 Production Plant.

## OUR PEOPLE

### Group Policies Relating to Corporate Social Responsibility Practices

Employees are the foundation of the Group's success and development. We consider human resources as the most important asset and the Group is committed to ensuring the health, safety, and general welfare of its employees at work. In addition, the Group not only provides various job-related seminars, workshops, and training courses for the employees' continuous professional development, but also adopts a number of social responsibility practices for supporting the community and upholding the Group's business integrity.

### Employment Management Policies and Systems

The Human Resources Department is established for the management of employment policies in the Group. The "Employees' Handbook" (員工手冊), "Human Resources System" (人力資源制度) and "Employment Code" (僱傭規章) provide the terms, guidelines, and arrangements on remuneration, dismissal, recruitment, promotion, working hours, rest periods, leaves, labour health and safety, insurance benefits, labour discipline, diversity, equal opportunities, anti-discrimination, other benefits and welfare to the employees of the Group.

#### Recruitment and Dismissal

Recruitment is required in the event of staff replacements, identification of new positions, or an increase in workload or responsibilities within different departments of the Group.

Recruitment is tailored to different classes of positions to be filled and will be directed to appropriate applicants in order to attract ample candidates. Publicity of recruitment will be carried out through appropriate media for a sufficient period to assure open opportunity for application and consideration.

The dismissal or voluntary termination of employees' contracts shall be enforced by the employment laws and regulations in Hong Kong, the PRC and Korea. Either party may terminate the employment by giving a written notification or payment in lieu of notice to the other party as specified in the employment contract according to the requirements of Labour Legislation. During the work transfer and resignation procedures, the parties have the responsibility and obligation to hand over the equipment, files, and materials belonging to the Group under their management to the relevant departments and responsible persons. In order to ensure a smooth transition, the relevant staff is required to complete a "Job Handover Checklist" (工作移交清單). The Group will conduct an exit interview with all monthly paid departing employees prior to their departure for receiving opinion and feedback to the Group.

### Promotion

The Group recognises promotion as the shift of an employee from one position to another that requires a higher degree of knowledge, skill, or responsibility and is assigned a higher pay range. We adopt an open-door communication policy and carry out a performance review every half-year with the employees on their performance, during which process each employee is given equal opportunity for promotion. The Group's employees are provided with a clear career path with opportunities for additional responsibilities and promotions.

The Group has standard policies and procedures for promotion as set forth in the "Employee's Handbook". The Group has a regular promotion plan every half-year. After the half-year or full-year appraisals, the Group will evaluate the work performance of its employees. The Group also implements a universal job promotion plan based on the evaluation results of the employees' work performance and job vacancies. In order to retain talents to promote the Company's sustainable development, employees with outstanding performance will be promoted at any time if the position becomes vacant under special considerations.

### Equal Opportunity, Diversity, and Anti-discrimination

The Group has set up the "Human Resources Diversity Policy" (人力資源多元化政策) and "Anti-discrimination Policy" (反歧視政策) in order to promote equality in the working environment for all employees so that they are treated equally in every aspect of their jobs and work under a discrimination-free working atmosphere. We strictly prohibit discrimination against potential candidates in the recruitment process on the account of their race, colour, religion, sex and gender identity, sexual orientation, age, marital and parental status, and/or pregnancy or medical conditions. All employees are encouraged to report any incidents of discrimination to the Human Resources Department and all cases will be thoroughly investigated and treated with strict confidentiality.

The Group recognises and embraces the benefits of having a diversified Board and workforce to enhance the quality of its performance. We established the "Human Resources Diversity Policy" (人力資源多元化政策) and believe that the different backgrounds and abilities of the Directors could enhance diversity and achieve effective leadership with multi-perspective ideas during the business decision-making process. The selection of candidates has been considered taking a number of factors into consideration, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

The Group's vision on equality applies to all aspects in employment and is set forth in the employee management policies and systems, including but not limited to recruitment, promotion, transfer, job assignment, rewards and benefits, training and development and suspension. We provide annual training courses for all employees on disability awareness, sexual harassment and workplace bullying. We also provide regular on-the-job training on these issues.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employment Profile

| **Workforce**<br>**As at 31/12/2023** | **2023**<br>**No. of Staff** |
|---|---|
| **By Gender** | |
| Male | 587 |
| Female | 178 |
| **By Age Group** | |
| Below 30 | 161 |
| 30 – 50 | 519 |
| Over 50 | 85 |
| **By Employment Type** | |
| Full time | 765 |
| Part time | 0 |
| **By Management Level** | |
| Senior Management | 16 |
| Middle Management | 57 |
| General Staff | 692 |
| **By Geographical Region** | |
| Mainland China | 583 |
| Hong Kong[7] | 9 |
| Korea | 176 |
| **Total** | **765** |

The Group strictly abides by the following laws and regulations, including but not limited to:

- Employment Ordinance (Cap. 57)
- Employees' Compensation Ordinance (Cap. 282)
- Sex Discrimination Ordinance (Cap. 480)
- Mandatory Provident Fund Schemes Ordinance (Cap. 485)
- Race Discrimination Ordinance (Cap. 602)
- Minimum Wage Ordinance (Cap. 608)

[7] Due to the double counting of 3 of the employees concurrently working in Mainland China and Hong Kong companies, the percentage of total employees is greater than 100%.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Labour Law of the PRC (《中華人民共和國勞動法》)
- Labour Contract Law of the PRC (《中華人民共和國勞動合同法》)
- Korea's Labor Standards Act

To the best of the Directors' knowledge and belief, the Group is generally in compliance with the local labour law regarding compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, vacation, minimum wage requirements during the FY2023. In addition, the Group has not received any complaints or notifications from authorities on contravention of any of the above employment practices.

## Employee Retention

### Remuneration and Compensation

The Group offers competitive compensation in order to retain talents. The remuneration package of each employee is determined with reference to a number of factors including educational background, job duties, professional skills, technical capabilities and experience, as well as salary level for similar job positions in the pearlescent pigment industry. The Group has also adopted a share option scheme pursuant to which employees of the Group are, based on management's evaluation of their individual performance, eligible to be granted share options as incentives.

To attract and retain talents, the Group also offers a variety of benefits, including free shuttle buses, bonuses, "Social Security and Housing Provident Fund" (社保及住房公積金) in the PRC, statutory pension scheme contributions for the benefit of employees by the relevant legal requirements in Hong Kong, the PRC and Korea, including the mandatory provident fund contributions in Hong Kong and social insurance payments in the PRC, national pension scheme in Korea, injury compensation and insurance and overtime allowance. The Group would regularly review the employees' compensation and benefits packages to reward and recognise those with outstanding performance. Incentives in the form of bonuses and share options may also be offered to eligible employees based on individual performance.

### Rest Period and Working Hours

The Group provides reasonable working hours and rest periods to employees. The resting time of the Group's employees is well-respected and the employees are also entitled to paid holidays under statutory requirements or otherwise under their respective employment contracts such as annual leave, sick leave, work injury leave, maternity leave and compensation leave.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Employee Turnover

During the FY2023, the Group has an overall turnover rate of 5.5%. The detailed turnover numbers and percentage are set forth below:

| Turnover | 2023 No. of Staff | 2023 Turnover rate (%) |
|---|---|---|
| **By Gender** | | |
| Male | 35 | 6.0 |
| Female | 7 | 3.9 |
| **By Age Group** | | |
| Below 30 | 2 | 1.2 |
| 30 – 50 | 30 | 5.8 |
| Over 50 | 10 | 11.8 |
| **By Management Level** | | |
| Senior Management | 2 | 12.5 |
| Middle Management | 3 | 5.3 |
| General Staff | 37 | 5.3 |
| **By Geographical Region** | | |
| Mainland China | 20 | 3.4 |
| Hong Kong | 0 | 0.0 |
| Korea | 22 | 12.9 |
| **Overall** | 42 | 5.5 |

### Employee Activities

During the FY2023, the Group has organised a variety of activities to motivate and to enhance the overall morale of its employees, including but not limited to Staff Sports Meeting, New Employees Welcome Meeting and Chinese New Year Greeting, which allow staff members to gather outside of work for bonding and team building.


Chinese New Year Greeting

The Group held a grand and brief ceremony to kick off its business on the seventh day of the first month of the lunar calendar. Senior management of the Group paid New Year's greetings to all the staff, and visited the production workshops and various departments to send sincere New Year greetings and good wishes to all of them.


New Employees Welcome Meeting

The Group held welcome meetings for newly hired employees. Through relaxed gatherings, we brought each other closer, promoted team communication, and reflected our emphasis on new employees and our commitment to creating an inclusive and dynamic work environment.


Staff Sports Meeting

The Sports Meeting includes a series of events such as basketball, table tennis, rope skipping, and three-legged races. The atmosphere at the event was vibrant and entertaining, with athletes engaging in fierce competition, bringing together the enthusiasm and energy of the employees. The Sports Meeting not only bring employees closer together, but also showcase the team's cohesion and collaborative abilities.

## Health and Safety

Health care of the employees is of primary importance to the Group, and the Group is committed to providing a safe working environment to its employees. To maintain a safe working environment and minimise potential workplace injuries, the Group has established internal policies on safety management whereby different team is assigned different safety compliance responsibilities. We have zero-tolerance for employees who commit physical assault, threatening behaviour, unwelcome photo-taking and harassment in the workplace. The Group has been accredited with the ISO 9001:2015, ISO 14001: 2015, and ISO 45001:2018 certificates. The Group has always adhered to the people-oriented development philosophy, prioritized the health of its employees, and actively carried out occupational health management.

Also, the Group organizes and carries out physical examination for employees every year and establishes health records. Furthermore, it sets up a multi-functional gym, equipped with treadmill, table tennis, billiards, dumbbells and other fitness equipment. Every year, the Group organizes different physical activities and actively participates in cultural and sports events such as air volleyball and fun events held at all levels, employees in the Group demonstrates healthy, vigorous and energetic spirits.

Looking ahead, we will continue to strengthen occupational health management, improve working environment, strengthen the education and training of occupational health laws and regulations and occupational disease protection knowledge, improve employees' awareness of occupational health and occupational disease protection, and strive to create a good and healthy working environment for employees, so as to ensure that occupational health risks are under control.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Policies and Measures on Health and Safety

*Occupational Safety Measures*

To protect the health and safety of the staff and the customers, the Group has implemented a series of policies for requirements and the handling procedures for specific situations:

- Safety production target management system (安全生產目標管理制度)
- Position occupational hygiene operating procedures (崗位職業衛生操作規程)
- Construction project occupational health “three simultaneous” management system (建設專案職業衛生“三同時”管理制度)
- Workers occupational health monitoring and filing management system (勞動者職業健康監護及其檔案管理制度)
- Maintenance and overhaul system for occupational diseases protection facilities (職業病防護設施維護檢修制度)
- Protective equipment management system for occupational diseases (職業病防護用品管理制度)
- Prevention publicity, education, and training system for occupational diseases (職業病防治宣傳教育培訓制度)
- Responsibility, hazard prevention, and control System for occupational diseases (職業病危害防治責任制度)
- Monitoring and evaluation management system for occupational diseases hazard (職業病危害監測及評價管理制度)
- Warning and notification system for occupational diseases hazard (職業病危害警示與告知制度)
- Accident handling and reporting system for occupational diseases hazard (職業病危害事故處置與報告制度)
- Hazard project declaration system for occupational diseases (職業病危害專案申報制度)
- Emergency rescue and management system for occupational disease hazards (職業病危害應急救援與管理制度)
- Occupational health inspection and reward and punishment system (職業衛生檢查與獎懲制度)
- Preliminary risk assessment system (初步風險評估系統)
- Safety and health management system (安全健康管理體系)

### Occupational Measures

The below sets forth a few examples of the practices adopted by the Group in accordance with the applicable local laws and regulations in relation to workplace safety:

Our Attempt:

- Ensuring the Group maintain the requirements of ISO 9001:2015 (Quality management), ISO 14001: 2015 (Environmental Management), and ISO 45001:2018 (Occupational health and safety);
- Ensuring the Group's sites maintain accident insurance for the workers;
- To monitor safety measures throughout the construction process who will submit inspection reports to the Group regularly;
- Employing certified contractors for regular inspection of fire safety equipment in Guangxi production facility and office premises;
- Providing health checks to staff members as appropriate prior to commencement of employment;
- Providing safety equipment such as fire extinguishers at the workplace;
- Installing surveillance cameras at the main entrances, reception halls and front desks of various sections of the production facility and offices;
- Employing security guards guarding at various entrances and carrying out 24-hour patrol;
- Prohibiting smoking at the workplace;
- Providing safety training to staff members and practising from time-to-time emergency responses in the case of fire or other hazards;
- Regular cleaning of the water supply filters and daily garbage removal; and
- Provide precautionary measures and equipment (such as disinfectant and mask) to protect the staff from pandemic.

1. Fire Drills

Fire drill shall be conducted regularly. After each drill, meeting comprising of all responsible parties shall be held to review every aspect.

2. Emergency Preparedness

"Contingency plans and Preparation Instructions for Environmental Emergencies" (突發環境事件應急預案及編製説明) and "Contingency plans for natural disaster incidents" (自然災害事故專項應急預案) are established to respond to emergency issues such as floods, infectious disease, earthquakes and heat stress.

In addition, the Group has formulated a "Safety and Health Management System" that focuses on workplace and employee safety and health. In all locations with risks of safety accidents, a safety and health management system will be established based on the safety and health work manual, and various plans will be implemented to ensure employee well-being. Safety and health issues requiring decision-making are addressed through regular meetings of the Join Industrial Safety and Health Committee held between labour and management. In addition, by establishing a safety and health personnel consultation mechanism between labour and management, we could immediately resolve on-site safety and health requirements and create a safe factory that build on trust between labour and management. We also conduct continuous education, expand safety facilities and investment, and improve safety awareness.

The Group conducts daily safety inspections based on the on-site inspection checklist to enhance employees' safety awareness, and share relevant accident cases of the Company and other companies with each factory to formulate prevention plans in advance for work with similar accident risks. Additionally, when working with subcontractors, safe work plans are formulated, and permits are issued in advance to prevent accidents.

The Group has a Process Safety and Environment Team to prevent safety incidents, enhance the quality of safety management, and conduct regular (quarterly) safety inspections at all business locations. Through this approach, major safety and health issues can be identified and improved in advance, and the quality of safety management can be improved. In addition, when extreme weather events such as heat waves may threaten employee health and worksite safety, we also prioritize the well-being of our employees. The establishment of an environment and safety team not only encourages employees to actively strengthen their awareness of environmental safety, fire prevention, and health management, but also provides regular simulation training for emergency evacuation, first aid, and life-saving drills in times of fire and other disasters, to prevent accidents and enhance employees' response capabilities.

In June 2023, the Group organized the "Safe Production Month" safety education training which focused on the theme of "Everyone pays attention to safety, and everyone will respond to emergencies", and carried out activities in all aspects. In the office building, production workshop, factory publicity column and other locations, safety month theme exhibition boards and safety month publicity banners are posted, and the safety production theme and other publicity contents are played circularly through LED. The Company also organized training on the theme of "Team Safety Management Knowledge" and held an on-site safety production knowledge answering contest for relevant trainees, so as to further improve the safety production management level of managers, be familiar with and master the emergency handling methods and measures of unexpected accidents.


In addition, the Group carried out the investigation and rectification of major accident hidden dangers, and at the same time, conducted the investigation and rectification of special operation safety hidden dangers such as firefighting, electricity and limited space. This could effectively curb the occurrence of production safety accidents and ensure safe production. The Company also organizes emergency drills for accident handling, and conducts drills such as on-site personnel rescue, personnel evacuation and emergency handling by simulating the accident site, so as to improve the emergency response system, improve the ability of accident rescue and emergency handling. The Group is committed to further improving the safety awareness and emergency response capabilities of all employees, building a solid line of defense for safe production, and creating a safe and healthy working environment for all employees.

Frequent high temperature weather has brought great challenges to employees. The Group regards heatstroke prevention and cooling as a top priority. Heatstroke prevention medicines have been prepared in each production workshops and office buildings. Moreover, we have carried out several "Send Cooling" activities, delivering watermelons and refreshing drinks to all employees. At the same time, the Group has continuously increased investment in heatstroke prevention and cooling facilities, strengthened the ventilation system and the investigation of potential safety hazards in high temperature areas. In addition, the Group enhanced the publicity of heatstroke prevention knowledge and trainings about emergency handling, which helped employees to improve their awareness and ability of heatstroke prevention, so as to safeguard the life safety and physical and mental health of employees, and ensure the safe production in summer.


### Safety Performance

The Group is committed to providing all necessary resources for effective implementation and continuous improvement to minimise and eliminate potential accidents at the workplace. The Group's offices and production facilities are subject to certain safety and health requirements pursuant to the requirements of ISO 45001:2018 (Occupational health and safety) and the laws in Hong Kong, the PRC and Korea, including but not limited to,

- The Labour Law of the PRC (《中華人民共和國勞動法》);
- The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》);
- Occupational Disease Prevention Law of the People's Republic of China (《中華人民共和國職業病防治法》);
- Production Safety Law of the PRC (《中華人民共和國安全生產法》);
- Law of the PRC on the Protection of Women's Rights and Interests (《中華人民共和國婦女權益保障法》);
- Regulation on Work-Related Injury Insurances (《工傷保險條例》);
- Measures for the Administration of Occupational Health Examination (《職業健康檢查管理辦法》);
- Classification and Catalogue of Occupational Diseases (《職業病分類和目錄》);

- Measures for Declaration of Occupational Disease Hazard Projects (《職業病危害專案申報辦法》);
- Regulations on the Reporting, Investigation and Handling of Production Safety Accidents (《生產安全事故報告和調查處理條例》);
- The Occupational Safety and Health Ordinance (Cap. 509) of Hong Kong; and
- Occupational Safety and Health Act of Korea.

During the FY2023, 2 accidents occurred at the CQV factory in Korea, resulting in a total loss of 168 working days, and the previous two years, the Group was not aware of any accidents, fatalities, and lost days due to material workplace injuries. The Group will continue to uphold the awareness of workplace safety, review the safety measures and provide guidelines to the Group's employees to ensure continuous improvements and avoidance of workplace accidents. In addition, to the best of the Directors' knowledge and belief, the Group is generally in compliance with local labour laws and regulations regarding occupational health and safety during the FY2023. Looking forward, the Group is committed to providing all necessary resources for effective implementation and continuous improvement to prevent occurrence of accidents at the workplace.

### Staff Education and Development

The Group always adheres to the concept of "talents are the first resource" and the strategy of "strengthening the enterprise with talents". The Group has introduced and cultivated retained talents in an all-round way, gathered talents with a broader vision and more open-minded, insisted on "transplanting talents with soil" and "cultivating talents with thick soil", vigorously introduced and trained international talents, promoted the construction of high-quality talent team to take a new step, and boosted its high-quality development.

In FY2023, the participation of these international talents with rich and mature experience in finance, investment, operation, technology and other business fields has provided adequate intellectual resources support for the development of various businesses of the Group. In addition, high-level talents in other business fields are also constantly joining, bringing together talents from all walks of life, and constantly adding new momentum to the high-quality development of the Group.

Not only introducing senior talents, but the Group also spared no effort to cultivate internal talents, build a platform for opportunities, innovate and improve the talent appointment mechanism, build a dual promotion channel of management sequence and technology sequence, and publicly select management personnel, so that the innovation and vitality of all kinds of talents can flourish. Talent assessment and incentive policies are optimized to give opportunities to those who really want to do something, can do something, accomplish something and obtain corresponding returns, so as to stimulate the enthusiasm and drive of all kinds of talents at all levels. Meanwhile, the Group has enhanced the organizational structure and working methods, streamline redundant positions and processes, create a team with good "vitality", achieve the training effect that is experienced and grown in the work, and build talent support for the Group's high-quality development.

On the other hand, universities and institutions provide further talent support for the Group. To strength industry-education collaboration, the Group actively work with institutions. In July 2023, teachers and students from College of Materials Science and Engineering, Zhejiang University visited the Group for a visit and research study, focusing on areas such as talent cultivation, integration of industry and education and school-enterprise cooperation.

Since August 2023, CQV held a series of languages (Chinese and English) courses, which not only help to communicate effectively and smoothly with the parent company, but also aim to promote long-term business development.

Employees are precious assets of the Group. The Group is also committed to business development and talent investment. Considering its employees to be indispensable to the Group's business achievements, in addition to the above safety-related training, the Group also provides both internal and external training programs to its employees regularly with a view to upholding the Group's brand image and continue to enhance their work quality and personal development.

The Group has established a series of policies for staff training and development:

(1) Internal Trainer Management Measures (內訓師管理辦法):

To establish the Company's internal trainer team, realize the formalisation and scientific management of internal lecturers so that it can effectively provide guidance on the employees to improve their work and performance, inherit the Company's relevant technology and corporate culture and facilitate knowledge sharing.

(2) Employee Training Credit System Management Measures (員工培訓學分制管理辦法):

The credit system management method is implemented to establish an effective learning incentive mechanism, encourage and assist the employees to master the knowledge and skills required for work, further improve their comprehensive quality, thereby enhancing their professional ability and effectively improving training efficiency.

(3) Staff Training Management System (員工培訓管理制度):

The Staff Training Management System is implemented to standardize and promote the Company's training continuously and systematically. Through the accumulation, dissemination, application, and innovation of knowledge, experience, and ability, the professional skills, and knowledge of employees are improved to meet the needs of the Company's business development.

(4) New Employee Training and Assessment Management Measures (新員工培訓及考核管理辦法):

The measure is specially implemented in order to standardize the Company's new employee training management, to familiarise the new employees with and adapt to the Group's culture, system and code of conduct as soon as possible. The Group supports the new employees to familiarise with the working environment, master their relevant work methods and skills, and clarify work norms and requirements. The Group also introduces a mentorship program whereby senior staff members will supervise new employees and provide on-board training and orientation to them to facilitate smooth integration into the Group's operation process.

In addition, we provide training opportunities to our employees through dedicated external service providers to enhance their capabilities and support their continuous development. We will also provide online training courses to provide greater convenience for employees. Our training options are independent and there are no restrictions on subject types. For employees who wish to pursue graduate studies, we offer the opportunity to attend graduate courses while on the job.

### Career Development

The Group has formulated labour contract to be entered into with each employee in accordance with the applicable labour laws. The Group also offers remuneration package to the employees including salary, bonus and other benefits and allowances such as the "Social Security and Housing Provident Fund" (社保及住房公積金) and birthday party.

The performance of the Group's employees will be reviewed annually for promotion appraisals, salary review and determination of annual bonus. The Group believes that the current appraisal systems provide an effective communication platform between the employees and the managerial staff of the Group, which is beneficial to realising the Group's expectation to select talents and retain existing employees through individual performance assessment.

### Rewards and Discipline

To encourage the staff to improve work performance with less mistakes, the Group has established a rewards and punishment system and has formulated all the relevant conditions in the "Employees' Handbook". There are three types of reward for the recognition of employees with good performance:

- Award (嘉獎) - The application for "rewards" is nominated by the person in charge of the department (completing the reward and punishment processing form), submitted to the human resources department for investigation and confirmation, and then reported to the human resources director for approval;
- Small merit (小功) - The application is nominated by the person in charge of the department (completing the reward and punishment processing form), submitted to the human resources department for investigation and confirmation, and then reported to the general manager for approval; and
- Great merit (大功) - The application shall be nominated by the head of the department (completing the reward and punishment processing form), and if it is submitted to the human resources department for investigation and confirmation, it will be submitted to each department for collegial consideration, and finally reported to the general manager for approval.

Discipline for employees with misconduct is divided into (i) warning, (ii) minor demerit, (iii) major demerit, and (iv) dismissal (termination of labour contract). Employees will be immediately dismissed if they have committed serious misconduct, such as serious dereliction of duty or malpractice for personal gain, causing major damage to the interests of the company, staff who are investigated for criminal responsibility according to law, corruption and bribery, etc..

### Learning and Development

To keep the employees abreast of new knowledge and skills, the Group also provides training programmes, such as workshops and seminars on health and safety at workplace. We believe that the provision of opportunities to continuing education and advanced training can both increase the competency of the staff and improve their loyalty and work efficiency and increase the awareness of work safety. The Group has produced various guidelines for (i) internal trainer management (內訓師管理辦法), (ii) employee training credit system management (員工培訓學分制管理辦法), (iii) employee training management system (員工培訓管理制度), and (iv) new employee training and assessment management (新員工培訓及考核管理辦法).

For the new employees to be more familiar with the culture and work practices, all new employees of the Group will have to go through a probation period stipulated in documents for specific position. Upon expiry of the probation period, the relevant supervisors will decide if the new employee can be employed on a permanent basis taking into consideration his or her work attitude, work quality and whether the skill sets are suitable for the position. In addition to the on-job training, the Group also organises induction trainings for new employees according to their job categories, including factory-level safety training to provide occupational safety knowledge, occupational health knowledge, environmental management system knowledge and promote environmental protection awareness. In order to improve the management efficiency, the Group has also provided training to the senior management staff on a wide range of topics, which include (i) national safety measures, policies and regulations; (ii) safety management and production; (iii) risk management and precautionary measures; (iv) occupational risk and measures; (v) advanced safety management case studies; contingency plan and case studies, etc..

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the FY2023, all of our management and employees* in Mainland China and most of our employees in Korea have received training and have been offered 18,685 training hours in total. The details are as follows:

| Percentage of Employee Receiving Training[8] | 2023 |
|---|---|
| **By Gender** | |
| Male | 100% |
| Female | 100% |
| **By Employment Category** | |
| Senior Management | 16 (100%) |
| Middle Management | 57 (100%) |
| General Staff | 692 (100%) |
| **Overall[9]** | 765 (100%) |

| Average Training Hours[10] | 2023 Hours per Employee |
|---|---|
| **By Gender** | |
| Male | 28.0 |
| Female | 10.5 |
| **By Employment Category** | |
| Senior Management | 26.1 |
| Middle Management | 29.7 |
| General Staff | 23.5 |
| **Overall[9]** | 24.0 |

Note: * Included the number of turnover staff since they also attended training during the FY2023.

8 Percentage of trained employee = Total number of employees received training during the Reporting Period/Total number of employees

9 Considered the employees of the Group in Mainland China and Korea

10 Average training hours = Total training hours during the Reporting Period/Total number of employees

### Prohibition of Child and Forced Labour

The Group is determined to be a responsible employer, and, in this connection, the Group has implemented good employment practice and promoted the ethical and human rights at the workplace. The Group only hires lawful employees and will not hire any persons who do not meet the minimum working age as specified under applicable laws and regulations. During the recruitment process, candidates must submit photocopies of their identity cards and subsequently present originals for verification purposes.

The Group has in place an internal policy and "Employees' Handbook" which prohibits any form of child labour and set out the process of resignation and dismissal of employees in order to safeguard the Group's and employees' rights and eliminate the possibilities of forced labour. The Human Resources department will review the employment practice regularly to prevent the possibility of child and forced labour. If any child or forced labour cases have been discovered, the child labours will be dismissed from work immediately. The Group will strictly follow the local labour laws and regulations to handle such cases.

In addition, the Group is an official and active member of the Responsible Mica Initiative (RMI), a global movement aiming to achieve the goal of being child labour free (CLF). We participate in annual RMI meetings to comply with international CLF norms. In order to fully implement CLF, we have selected a certification body in India to regularly inspect, verify and audit the CLF compliance status of our Indian raw material suppliers.

The Group complies with employment laws and regulations in all material aspects and strictly abides by (i) the Labour Law of the PRC (《中華人民共和國勞動法》), (ii) the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), (iii) Special protection regulations for juvenile workers of the PRC (《中華人民共和國未成年工特殊保護規定》), (iv) the Employment of Children Regulations of Hong Kong, (v) the Employment Ordinance of Hong Kong, and (vi) the Labour Standard Act of Korea. During the FY2023, the Group was not aware of any significant non-compliance case relating to child labour and forced labour.

## OUR SUPPLY CHAIN

### Supply Chain Management

The Group is committed to building lasting and constructive relationships with partners in its supply chain. To maintain and ensure the quality of the Group's services, the Group's Supply Chain Management Policy specifies the objective to achieve a fair, transparent and competitive procurement process, which requires all employees to observe the highest standards of business integrity and to comply with relevant laws and regulations.

The Group has organised an investigation team, to identify all environmental and social risk factors related to daily production and operation process, warehouse and transportation in the supply chain, and analyse the risk value of each factor according to the "Supply Chain Management System" (供應鏈管理制度). The supply chain centre and safety and environmental protection centre are responsible for the risk identification and control of internal warehouses. Risk identification and control of external suppliers and service suppliers are investigated annually by the expert group organized by the supply chain centre. The supply chain management centre worked with the quality management centre, manufacturing centre, technology centre, financial management centre, and other departments to review and report to the general manager for approval.

In addition, we have formulated the "Supplier Corporate Social Responsibility Code of Conduct" (供應商企業社會責任行為準則) to focus on reviewing suppliers' corporate social responsibility and ESG performance, and strictly require suppliers to conduct business in an ethical manner, operate with integrity, and compete fairly.

### Supplier Engagement

The Group adheres great importance to the collaboration with suppliers and believes deeply that the establishment of a cooperation relationship with suppliers would enhance the Group's workflow and product quality. The Group conducts comprehensive evaluations of suppliers regularly. In addition to reviewing factors such as brand and product quality, suppliers' environmental and social responsibility performance is one of the primary considerations in establishing strategic relationships. In considering building partnership, the Group will prioritise companies holding ISO14001 environmental management system certification. The Group conducts regular on-site inspections to check and review the performance of suppliers.

The Group has established a set of standard procedures for the selection of new suppliers or service providers. The procurement department of the Group will conduct qualification assessments and the criteria include: (A) whether there is environmental pollution risk in the production and service process, the ability of environmental protection management, and if there is any relevant qualification certificate; (B) whether the products or services provided have social risks, such as whether they are monopolistic; (C) whether more environmentally friendly products and services are used in the production process; and (D) production and supply capability. Suppliers or service providers that meet the requirements will fill in the "Supplier Sample Testing Application Form" (供方樣品檢驗申請表) and send their samples to the quality management centre. Once the potential supplier or service provider got qualified, the procurement department will fill in the "Supplier's Product Trial Application Form" (供方產品試用申請表) and submit it to the quality management centre, manufacturing management centre, and technology centre for joint approval, and the product will have 3-month probation period. After the probation period, the procurement department together with the manufacturing management centre, technology centre, quality management centre, and financial centre will re-evaluate the supplier and will add them into the "List of Qualified Suppliers" (合格供方名單). The suppliers in the "List of Qualified Suppliers" will also be reviewed and updated in a timely manner.

## Supplier Profile

During FY2023, the Group has a total of 190 suppliers, in which 147 of the suppliers are located in Asia, 28 of them are located in the Europe, 10 of them are located in the United States of America and 5 of them are located in other regions.

## Supplier Control and Monitoring

In order to achieve better project performance, the Group reviews on an annual basis the quality of suppliers based on factors such as (i) sufficiency of the plant; (ii) sufficiency of manpower; (iii) progress; (iv) workmanship; (v) response to instructions; (vi) financial status; (vii) environmental and social performance and (viii) planning and management. Comments and remarks are given if any improper practices and unsatisfied performance is observed for further improvement.

The procurement department is responsible for liaising with suppliers and manufacturers and conducting on-site inspections regularly. The inspection scope includes manufacturing status, quality control, key procedure control, operation status of manufacturing and testing equipment, environmental governance, social risk governance, usage of environmentally friendly products and services, labour quality, etc. The inspectors keep records in accordance with the above criteria, and they will be used as an important basis for evaluating qualified suppliers.

At the beginning of each year, the procurement department together with the quality management centre, production planning centre, technology centre, financial management centre, and other relevant departments will evaluate the performance of qualified suppliers. The Group will assess the products or quality management system of the suppliers when necessary, suggest assessment opinions, and complete the "Supplier Assessment Record Form" (供方評審紀錄表).

The procurement department of the Group is responsible for formulating "Performance Profile of Qualified Suppliers" (合格供方業績檔案), which is to regularly count and record the unqualified raw and auxiliary materials found in the daily incoming inspection. The inspector will provide a written warning to those suppliers with poor performance and require them to submit written guarantees and plans for improvement. For those who have been warned but without obvious improvement, the procurement management centre will issue a notice of disqualification, and after reporting to the management representative for approval, the supplier will be notified to stop supplying and remove them from the "List of Qualified Suppliers" (合格供方名單).

Suppliers or service providers who are disqualified within a year will not be reconsidered. They will need to re-evaluate according to the above-mentioned procedures if they wish to re-join over a year.

## OUR CUSTOMER

### Product and Services Quality

#### Product Responsibility

As the market is rapidly changing and the demand is increasing, the Group will continue to focus on the development on high quality products, innovations and to pay attention to the customers' requirements. The Group is persistent in improving the operation systems. The Group appreciates honesty, puts the customers' requirements as our top priority, acts in a proactive and responsible manner to maintain a mutually beneficial relationship with the customers. The Group strives to attain a deep understanding of the customers' requirements and try our very best to meet their needs and even exceed their expectations. While collaborating with the customers and the business partners, the Group can grow and make progress together.

According to the "Process Control Procedure for Customer-Related Requirements" (與顧客有關要求的過程控制程式), the Sales Department of the Group receives all the drawings, data, samples, and other specific materials from the customer and send them to the Technical Department of the Group. The technical department will then be responsible for reviewing and collecting relevant laws and regulations (including the requirements and regulations issued by government agencies on product safety inspection), product standards/specifications, and customer-specified product safety requirements. The product safety requirements are also applicable to the procurement department, and pass on to relevant suppliers. When purchasing materials from a supplier, the procurement department should verify the purchasing data concerning product/process safety in accordance with the "Procurement Control Procedure" (採購控制程式), and clearly stated the products provided by the supplier and related safety items in the purchasing contract, technical quality agreement, and material acceptance specification. The Group proactively promotes the use of environmental-friendly products.

During the Reporting Period, the Group obtained the International Cosmetic Ingredient Certification (EFFfCI) and obtained the supplier qualification of the luxury brand Chanel. The evaluation results indicate that the hygiene level of our equipment meets standards, the pollution prevention system performs well, and the double inspection system is complete, which shows the effectiveness of our product quality control policies and management.

### Safety and Quality Management

As a responsible new material manufacturing enterprise, the Group has accredited with the ISO 9001:2015, ISO 14001: 2015, and ISO 45001:2018 certificates and strictly monitor the quality and safety in the use of the products of the Group. In 2023, the Group was awarded the honorable title of "Quality Control Benchmark", attributed by its "experience in the implementation of comprehensive quality control system". The Group will continue to strengthen the quality control ability.

The Group is committed to complying with the local laws and regulations on product safety and protecting consumers' health in the use of the Group's products. Following the requirements of ISO 9001:2015, ISO 14001: 2015, and ISO 45001:2018, the Group implements stringent internal codes and procedures for quality checks during the manufacturing process of pearlescent pigment products. Any non-conformity products must be handled properly with procedures such as proper labelling and recording.

The Group manages and standardises the quality inspection of raw materials, semi-finished products, and finished products involved in various outputs and delivery links in manufacturing plants in accordance with the "Product Safety Management Manual" (產品安全性管理程式) to ensure that the quality is strictly monitored before being transported to the next production process. Once the product is found to be unqualified in safety, it will be isolated by the quality department and handled in accordance with the "Unqualified Product Control Procedure" (不合格品控制程式). If the product has been shipped, the sales department will notify the customers and immediately recall the defective product.

The Group strictly abides by national and local laws and regulations, including but not limited to the Product Quality Law of the PRC (中國產品質量法), Production Safety Law of the People's Republic of China (中國安全生產法) and other relevant European Union standards. During the FY2023, there was no official record of any material non-compliance or violation of relevant laws and regulations regarding product and service quality.

### Product Return Policy

The Group maintains the usual high quality for its products and services, meanwhile, the Group has arranged for the return and compensation of products with quality issues in accordance with the terms written in the sales contracts. For any customers who are affected by quality issues, the Group will adopt the standard, including product return, recall or provide compensation of products, in a consistent manner.

When the Group has received any complaint from customers, it will handle it according to the "Customer complaint handling procedure" (客訴問題處理常式). Firstly, the staff may be required to complete the "Quality Improvement Countermeasures Report" (品質改善對策報告書) and submit it to the quality engineer for conducting a preliminary analysis on the complaints. Then the responsible departments are identified, and a discussion group will be set up to analyse the reasons and provide the improvement measures. The quality engineer will then issue a rectification notice to the responsible departments, and the relevant departments will notify the quality department once the improvement measures are implemented. The quality engineer is responsible for the subsequent verification. If there remains any outstanding issue or problem, the discussion group will work together again. Otherwise, the result will be recorded in the "Quality Improvement Countermeasures Report" (品質改善對策報告書), scanned and passed to the salesman to reply to the customer.

During the FY2023, there was no official record of complaint about product or service, and there were no sold or shipped products that were subject to recalls for safety and health reasons.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Product Advertising and Labelling

To ensure that the Company's products and services advertising information is accurate and avoid misleading consumers, the Group strictly abides by the related laws and regulations, including but not limited to Law of the PRC on the Protection of Consumer Rights and Interests (《中國消費者合法權益保護法》), Advertising Law of the PRC (《中國廣告法》), Measures for Penalties against Infringement upon Consumers' Rights (《欺詐消費者行為處罰辦法》), Interests and Anti-Unfair Competition Law of the PRC (《中國反不正當競爭法》) and Fair Labelling and Advertising Act of Korea (《標識廣告法》).

The Group understands the customers' rights and is committed to providing accurate product and service information for customers in connection with their purchase or consumption decision. The Group has established the "Product identification, traceability control procedures" (產品標識、追溯控制程式) and the "Product and Service Advertisement Review Management System" (產品和服務廣告審查管理制度). In the FY2023, the Group participated in a number of international trade fairs to further expand the global market. At the same time, the Group strictly requires the employees to carefully review the advertising materials for the purpose of making sure that there is no incorrect or misleading information in the advertisements published by the Group. The Group is committed to providing sufficient and accurate information and product label to customers, and considers that it is an extended responsibility of product safety management.

## Intellectual Property Protection, and Data Protection and Privacy

The Group has been awarded as a "National Intellectual Property Superior Enterprise" (國家知識產權優勢企業) by National Intellectual Property Bureau (國家知識產權局) since 2017. In the FY2023, the Group was awarded "the first batch of excellent workstations for intellectual property rights protection assistance in Guangxi", affirming our contributions and outstanding achievements in intellectual property innovation, intellectual property system construction and operation, intellectual property protection, and intellectual property rights protection assistance. We will continue to improve the level of intellectual property management to solidly promote and escort the innovative development of enterprises. In addition, the invention patent of "a pearlescent pigment for water-based ink and its preparation method and dispersion device" was successfully granted by the State Intellectual Property Office. This invention helps the Company achieve new momentum for cost reduction, efficiency improvement and high-quality development. According to the "Enterprise intellectual property Management Standards" (GB/T29490-2013), the Group's intellectual property management system documents should comply with relevant effective laws and regulations, through data search, communication, sampling inquiry and other ways, the supervision team conducted a comprehensive and detailed review to the Group's intellectual property management system operation. No nonconformities were found, the audit was successfully passed, and the certification certificate was maintained. As a national intellectual property superior enterprise, the Group has taken necessary measures to strictly protect our intellectual property rights, data and privacy.

The Group also fully understands the importance of maintaining commercial confidentiality and will handle it with special care. This is not only one of the key elements of our sustainable management, but also for our customers and other stakeholders. To this end, we have implemented system data security measures, physical data security measures (such as monitoring facilities), access control facility management, and business site access procedures. We also provide data security training to all employees to emphasize that data security is at the heart of everything we do.

In the FY2023, 16 patents were successfully obtained, while newly applied for 3 patents and 7 patents pending approval. As of 31 December 2023, the Group had a total of 151 patented technologies, 4 software copyrights and 74 registered trademarks.

The Group strictly abides by national and local laws and regulations, including but not limited to the Patent Law of the PRC, Copyright Law of the PRC, Trademark Law of the PRC, Patent Act, Trademark Act of Korea and other laws and regulations. In order to protect the information of customers and the Group (including information related to intellectual property rights), the Group has formulated its own "Information System Management Measures" (資訊系統管理辦法) for the Group to ensure that offices and sites equipment such as laptops are properly kept. All the documents and electronic materials of the Group, including materials for training, are not allowed to circulate outside without authorization. All business information, financial information, personnel information, bidding information, contract documents, customer information, research and statistical information, technical documents, planning and marketing plans, management documents, meeting content, that have not been publicly disclosed are all considered corporate secrets.

The Group's employees are responsible for their confidentiality. All rights and interests obtained by employees who are on duty, such as commercial and technical information, inventions, and research results belong to the Group and are not allowed to copy, imitate, reprint, extract, or distribute without any written authorization. The Group is committed to protecting the customers' data and privacy. Unless the customer's consent is obtained, the collected customer information will not be used for promotional purposes.

During the FY2023, there was no material non-compliance or violation in intellectual property, product quality and safety, advertising, labelling, and privacy.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## BUSINESS ETHICS

### Anti-corruption

The Group is committed to conducting its business with honesty and integrity and applying the highest standards on the establishment of transparent and open corporate governance frameworks. The Group would not accept any unethical acts.

The Group's policy of "Anti-bribery, anti-corruption, anti-fraud and whistleblowing management system" (公司反賄賂反腐敗反舞弊與舉報管理制度) and "Ethic Code" are aimed to ensure that the Group is free of corruption and uphold integrity throughout its businesses. The policy covers staff orientation and the Employees' Handbook. A whistleblowing system is established for staff and other relevant parties to report misconduct cases. Every reported case will be handled in confidentiality and followed through in accordance with related policies and procedures, so as to protect the whistleblower.

This system is specifically established in order to strengthen corporate governance and internal control, prevent fraud, standardize anti-fraud work behaviour, and safeguard the legitimate rights and interests of the company and shareholders, in accordance with the "Basic Norms and Supporting Guidelines for Enterprise Internal Control" (企業內部控制基本規範及配套指引), the "Company Code", and relevant laws and regulations and other relevant documents, associating with the actual situation of the company. The purpose of anti-bribery, anti-corruption, and anti-fraud work is to regulate the professional behaviour of all employees of the company, especially directors, supervisors, middle and senior managers, and employees in key positions, establish a clean, diligent and dedicated work style, and abide by relevant laws and regulations, professional ethics and the company's internal management system to prevent the occurrence of behaviours that damage the interests of the company and shareholders. This system applies to the Group.

The Group strictly adheres to the laws and regulations relating to business honesty, bribery and money launderings in Hong Kong, such as Prevention of Bribery Ordinance (Cap. 201) in Hong Kong, the PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》), the PRC Criminal Law (《中華人民共和國刑法》) and Korea's Kim Young-ran Act (《金英蘭法》). Employees of the Group are also required to strictly comply with the above laws and regulations, such requirement is a term that under the Group's standard employment contract that legal non-compliance will constitute a ground of termination of employment.

To uphold the Group's business ethics, regular internal training and updates on anti-corruption will be provided to the directors and selected employees of the Group.

In the course of development, the Group has always insisted on integrity as the base point of corporate development and integrated integrity into the construction and development of the Group. It creates an honest and upright good ecology, maintains clean internal and external relations, and builds a loyal and transparent management team. In view of it, the Group promotes the ability to innovate and improve core competitiveness in order to promote the long-term development of honest and upright private enterprises, improve the Group's management quality, and ultimately help the harmonious and healthy development of enterprises.

The Group also expects its suppliers and business partners to abide by the relevant local anti-corruption laws. The Group provides anti-corruption training for all the Directors, senior management and general staff regularly. In 2023, the Group has completed annual anti-corruption training for all the Directors, senior management and general staff of the Group. During the FY2023, the Group was not aware of any warning, notice complaint or notification from governmental authorities on non-compliance cases such as bid-rigging and corruption litigation in this regard.

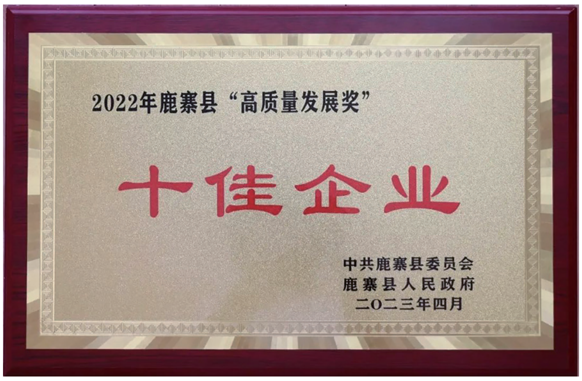
## OUR SOCIETY

### Community Investment

The Group believes that community support is important to the Group's long-term success and strives to engage the community to understand their needs surrounding us. The Group is committed to contributing to programmes that support healthy, resilient, and sustainable community development over the short and long term. The Group is committed to making contributions to society and support of initiatives that benefit the communities in pursuit of a better tomorrow.

### Our Contribution

The Group has always been enthusiastic about the public welfare work of helping the poor, upholding social responsibilities, and continuously contributing resources to the society. In 2023, the Group donated RMB 1,334,700, in forms of monetary, resources and poverty alleviation funds, and established a supportive relationship with the poor. The Group has been awarded the 2022 "Top Ten Enterprises of Luzhai County High Quality Development Award" and the "Caring Enterprise for Helping the Disabled" and other honors.




The Group actively assumes social responsibilities, making multiple donations and contributions, actively participated in poverty alleviation, disability assistance, education support, and other public welfare undertakings, helped many disabled people and their families seek employment, donated money and resources to aid in the fight against the epidemic in Baise, and contributed to the continuous development of public welfare undertakings. Through practical actions, we contribute back to society and demonstrate a strong sense of social responsibility and commitment.


The Group is also keen on strengthening connections and promoting school-enterprise cooperation and achieving win-win results. In July 2023, teachers and students from College of Materials Science and Engineering, Zhejiang University visited the Group for a visit and research study. Students can visit the Group's product exhibition hall, corporate culture exhibition hall, R&D centre, and more at close range. They have the firsthand experience of the charm of the Group's products and innovative technologies, and they can truly feel the Group's corporate culture and working environment, gain a better understanding of the Group's development overview, latest technologies, and research achievements. Through the visit and exchange, students not only have a better understanding of the corporate culture, but also realize the importance of knowledge and skills, and better career development in the future. The Group will continue to strengthen school-enterprise collaborations and provide support for internships and employment.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


In March 2023, a forest fire broke out on the east coast of Uljin County, Gangwon Province, South Korea, resulting in the destruction of over 2,000 hectares of forests. As a socially responsible company, CQV actively participated in tree planting and reforestation activities to restore the damaged forest. They also made donations and contributed materials to rejuvenate nature. The increasing frequency of natural disasters such as fires and earthquakes worldwide has not only raised people's awareness of climate change but has also made the Company fully understand the importance of environmental protection.

## HKEX'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

| Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1) | | Section/Statement |
|---|---|---|
| **A. Environmental** | | |
| **Aspect A1: Emissions** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | Our Environment – Environmental Compliance |
| **KPI A1.1** | The types of emissions and respective emissions data. | Our Environment – Emissions and Waste Generation - Air Emissions |
| **KPI A1.2** | Direct (Scope 1) and energy indirect (Scope 2) Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Our Environment – Emissions and Waste Generation - Greenhouse Gas (GHG) Emissions |
| **KPI A1.3** | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Our Environment – Waste Generation |
| **KPI A1.4** | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Our Environment – Waste Generation |
| **KPI A1.5** | Description of emissions target(s) set and steps taken to achieve them. | Our Environment – Sustainability Overview and Management Objectives |
| **KPI A1.6** | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | Our Environment – Waste Generation |

| Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1) | | Section/Statement |
|---|---|---|
| **A. Environmental** | | |
| **Aspect A2: Uses of Resources** | | |
| **General Disclosure** | Policies on the efficient use of resources, including energy, water and other raw materials. | Our Environment – Environmental Compliance |
| **KPI A2.1** | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | Our Environment – Nature resources – Energy Efficiency |
| **KPI A2.2** | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Our Environment – Nature resources – Water Consumption and Efficiency |
| **KPI A2.3** | Description of energy use efficiency target(s) set and steps taken to achieve them. | Our Environment – Nature resources – Energy Efficiency |
| **KPI A2.4** | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | Our Environment – Nature resources – Water Consumption and Efficiency |
| **KPI A2.5** | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Our Environment – Nature resources – Paper and Packaging Materials |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1) | | Section/Statement |
|---|---|---|
| **A. Environmental** | | |
| **Aspect A3: The Environment and Natural Resources** | | |
| **General Disclosure** | Policies on minimising the issuer's significant impacts on the environment and natural resources. | Our Environment – Nature resources |
| **KPI A3.1** | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Our Environment – Environmental Impacts from our Operations and Mitigation Measures |
| **Aspect A4: Climate Change** | | |
| **General Disclosure** | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | Our Environment – Climate Change |
| **KPI A4.1** | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | Our Environment – Climate Change |
| **B. Social** | | |
| **Employment and Labour Practices** | | |
| **Aspect B1: Employment** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | Our People – Policies, Employment Management, Employee Retention |
| **KPI B1.1** | Total workforce by gender, employment type (such as full-time or part-time), age group and geographical region. | Our People – Employment Management |
| **KPI B1.2** | Employee turnover rate by gender, age group and geographical region. | Our People – Employee Retention |

| Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1) | | Section/Statement |
|---|---|---|
| **B. Social** | | |
| **Aspect B2: Health and Safety** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to providing a safe working environment and protecting employees from occupational hazards. | Our People – Health and Safety |
| **KPI B2.1** | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | Our People – Health and Safety |
| **KPI B2.2** | Lost days due to work injury. | Our People – Health and Safety |
| **KPI B2.3** | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | Our People – Health and Safety |
| **Aspect B3: Development and Training** | | |
| **General Disclosure** | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | Our People – Staff Education and Development |
| **KPI B3.1** | The percentage of employees trained by gender and employee category. | Our People – Staff Education and Development |
| **KPI B3.2** | The average training hours completed per employee by gender and employee category. | Our People – Staff Education and Development |

| Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1) | | Section/Statement |
|---|---|---|
| **B. Social** | | |
| **Aspect B4: Labour Standards** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to preventing child and forced labour. | Our People – Prohibition of Child and Forced Labour |
| **KPI B4.1** | Description of measures to review employment practices to avoid child and forced labour. | Our People – Prohibition of Child and Forced Labour |
| **KPI B4.2** | Description of steps taken to eliminate such practices when discovered. | Our People – Prohibition of Child and Forced Labour |
| **Operating Practices** | | |
| **Aspect B5: Supply Chain Management** | | |
| **General Disclosure** | Policies on managing environmental and social risks of the supply chain. | Our Supply Chain – Supply Chain Management |
| **KPI B5.1** | Number of suppliers by geographical region. | Our Supply Chain – Supply Chain Management |
| **KPI B5.2** | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | Our Supply Chain – Supply Chain Management |
| **KPI B5.3** | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | Our Supply Chain – Supply Chain Management |
| **KPI B5.4** | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | Our Supply Chain – Supply Chain Management |

| Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1) | | Section/Statement |
|---|---|---|
| **B. Social** | | |
| **Aspect B6: Product Responsibility** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters<br>relating to products and services provided and methods of redress. | Our Customer – Product and Service Quality |
| **KPI B6.1** | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Not relevant to the Group's business |
| **KPI B6.2** | Number of products and service related complaints received and how they are dealt with. | Our Customer – Product and Service Quality |
| **KPI B6.3** | Description of practices relating to observing and protecting intellectual property rights. | Our Customer – Intellectual Property Protection, Data Protection and Privacy |
| **KPI B6.4** | Description of quality assurance process and recall procedures. | Our Customer – Product and Service Quality |
| **KPI B6.5** | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Our Customer – Intellectual Property Protection and Data Protection and Privacy |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1) | | Section/Statement |
|---|---|---|
| **B. Social** | | |
| **Aspect A7: Anti-corruption** | | |
| **General Disclosure** | Information on<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to bribery, extortion, fraud and money laundering. | Business Ethics |
| **KPI B7.1** | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases. | Business Ethics |
| **KPI B7.2** | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Business Ethics |
| **KPI B7.3** | Description of anti-corruption training provided to directors and staff. | Business Ethics |
| **Community** | | |
| **Aspect B8: Community Investment** | | |
| **General Disclosure** | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Our Society – Community Investment and Our Contribution |
| **KPI B8.1** | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Our Society – Community Investment and Our Contribution |
| **KPI B8.2** | Resources contributed (e.g. money or time) to the focus area. | Our Society – Community Investment and Our Contribution |

Note 1: All general disclosures and KPIs under "Subject Area A. Environmental" are "comply or explain" provisions while others are recommended disclosures set out in the ESG Guide.

# BIOGRAPHICAL INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr SU Ertian** ("**Mr SU**"), aged 58, is our founder, our executive Director, Chairman, Chief Executive Officer and one of the controlling shareholders (the "**Controlling Shareholders**"). Mr SU is also the general manager of Chesir Pearl. Mr SU has been the Chairman of Chesir Pearl since its establishment on 29 March 2011. Mr SU was appointed as a Director on 8 June 2018 and was redesignated as an executive Director on 22 December 2020. Mr SU was appointed as an executive director of CQV, a non-wholly owned subsidiary of the Company and a Korean company with its common shares listed on Korean KOSDAQ market (KOSDAQ: 101240), on 23 August 2023. Mr SU is primarily responsible for determining our business strategies and overseeing the implementation thereof. Prior to establishing Chesir Pearl, Mr SU was working in a number of mining and trading companies in the PRC.

Mr SU was the Chairman of the 3rd Liuzhou Wenzhou Chamber of Commerce (第三屆柳州市溫州商會), Honorary Chairman of the 4th Liuzhou Wenzhou Chamber of Commerce (第四屆柳州市溫州商會), a representative of the 13th and 14th People's Congress of Liuzhou City (柳州市第十三、第十四屆人民代表大會), the vice chairman of the 13th and 14th Commerce of Liuzhou Federation of Industry and Commerce (第十三、第十四屆柳州市工商業聯合會) and a committee member of the 12th General Chamber of Commerce of the Guangxi Zhuang's Autonomous Region Federation of Industry and Commerce (第十二屆廣西壯族自治區工商業聯合會總商會).

Mr SU obtained an Executive Master of Business Administration (EMBA) degree from Guangxi University (廣西大學), the PRC in December 2012 by way of part-time studies. Mr SU was an adjunct professor at Hubei University of Technology (湖北工業大學), the PRC during September 2017 to September 2020.

**Mr JIN Zengqin** ("**Mr JIN** "), aged 55, is our executive Director and one of the Controlling Shareholders. Mr JIN is also the Deputy General Manager of Chesir Pearl. Mr JIN has been the executive director of Chesir Pearl as well as its Deputy General Manager since May 2011. Mr JIN is primarily responsible for overseeing sales operations and the implementation of our business strategies and initiatives. Prior to joining our Group, Mr JIN was working in a plastic manufacturing enterprise in the PRC for more than 15 years with his last position as the general manager.

Mr JIN is a member of the 9th Chinese People's Political Consultative Conference National Committee of Luzhai County (鹿寨縣第九屆政協委員) and the vice chairman of Luzhai County Federation of Industry and Commerce (鹿寨縣工商業聯合會).

Mr JIN obtained a bachelor's degree in economics from Hangzhou Institute of Commerce (杭州商學院), the PRC in July 1991, a bachelor's degree in business management from Guangxi University (廣西大學) the PRC in June 1996, a bachelor's degree in arts and design from Wuchang Institute of Technology (武昌理工學院), the PRC in December 2013 by way of part-time studies and an Executive Master of Business Administration (EMBA) degree from Guangxi University (廣西大學), the PRC in June 2020 by way of part-time studies.

# BIOGRAPHICAL INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

**Mr ZHOU Fangchao** ("**Mr ZHOU**"), aged 41, is our executive Director and a joint company secretary of our Company. Mr ZHOU is also the Deputy General Manager of Chesir Pearl and the secretary to the board of directors of Chesir Pearl. Mr ZHOU joined our Group in April 2014 as an assistant to the chairman of the board of directors of Chesir Pearl and was promoted to the position of the Deputy General Manager in April 2015. Since September 2018, Mr ZHOU took on an additional role as the secretary to the board of directors of Chesir Pearl. In October 2020, Mr ZHOU was appointed as a director of Chesir Pearl.

Prior to joining our Group, Mr ZHOU worked as an engineer at SAIC-GM-Wuling Automobile (上汽通用五菱汽車股份有限公司), a sino-foreign joint venture in the PRC jointly established by Shanghai Automotive Group Co., Ltd., General Motors Corporation of the United States and Guangxi Automobile Group Co., Ltd. (formerly Liuzhou Wuling Automobile Co., Ltd.), during July 2005 to December 2007. Mr ZHOU then started his own business from July 2008 to February 2010. From March 2010 to March 2013, Mr ZHOU previously worked as a project director of an information technology company in Guangxi Province.

Mr ZHOU obtained a bachelor's degree in material forming and control engineering from Nanchang Institute of Aviation Industry (南昌航空工業大學) (currently known as Nanchang Aviation University (南昌航空大學)), the PRC in July 2005.

**Mr BAI Zhihuan** ("**Mr BAI**"), aged 40, is our executive Director and Vice President. Mr BAI joined the Group in 2014 and is currently the director and vice general manager of Guangxi Chesir Pearl Material Co., Ltd. (廣西七色珠光材料股份有限公司), a non-wholly owned subsidiary of the Company. Mr BAI was appointed as an executive director of CQV, a non-wholly owned subsidiary of the Company and a Korean company with its common shares listed on Korean KOSDAQ market (KOSDAQ: 101240) on 23 August 2023. Mr BAI is responsible for overseeing the sales and purchasing activities of the Group and day-to-day operations and management of the Group. Mr BAI graduated from Guangxi University of Science and Technology (廣西科技大學) with a bachelor's degree in business administration. He is a postgraduate of master of marketing management in Complutense University of Madrid (西班牙馬德里康普頓斯大學). Mr BAI is a nephew of Mr SU, the Chairman and Chief Executive Officer of the Company and one of the controlling shareholders of the Company.

**Ms ZENG Zhu** ("**Ms ZENG**"), aged 33, is our executive Director. Ms ZENG has joined Chesir Pearl Material Co., Ltd. (廣西七色珠光材料股份有限公司) ("**Chesir Pearl**") since her graduation from The Guangxi University (廣西大學) in 2014 with a bachelor's degree in chemical engineering and technology. Initially working for Chesir Pearl as an inspector of incoming raw materials, Ms ZENG has been gradually promoted over the years to the positions of quality check team leader and quality check supervisor in 2016 and 2019, respectively. In September 2021, Ms ZENG has been promoted as the Chief Quality Officer of the Group and is responsible for the management of the quality control function of the Group.

# BIOGRAPHICAL INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

## NON-EXECUTIVE DIRECTOR

**Mr HU Yongxiang** ("**Mr HU**"), aged 57, is a non-executive Director. Mr HU has also been a director of Chesir Pearl since October 2020. Mr HU is primarily responsible for formulating the overall implementation business plan of Chesir Pearl.

Mr HU graduated from Tongji University (同濟大學), the PRC with a master's degree in business administration in November 1998. Mr HU has over 20 years of experience in venture capital. Mr HU is a currently a general manager of Zhejiang Venture Capital Group Co., Ltd. and is experienced in successful listing of companies in the new materials industry, including Western Metal Materials Co., Ltd. (西部金屬材料股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002149) and Rutai Materials Tech Co., Ltd. (瑞泰科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002066). Mr HU was an assessor and entrepreneurial instructor for the new materials finals of the China Innovation and Entrepreneurship Competition (中國創新創業大賽新材料總決賽) from 2017 to 2019. Mr HU is currently the vice president of Zhejiang Venture Capital Association (浙江省創業投資協會).

Mr HU has been a director of Zhejiang Qinglian Food Co., Ltd (浙江青蓮食品股份有限公司), a company listed and quoted for trading on NEEQ on 17 March 2016 and was subsequently delisted on 21 July 2017, due to the reason of changes in strategic development planning since 28 June 2018.

Mr HU also has been appointed as the chairman of the supervisory board of Hangzhou Huaguang Welding New Material Co., Ltd. (杭州華光焊接新材料股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688379), since September 2017, a director of Hangzhou On Honest Tech. Corp., Ltd. (杭州安鴻科技股份有限公司), a company listed and quoted for trading on NEEQ and was subsequently delisted in February 2021, since January 2019, and a supervisor of Dongyang Qingyu Media Co., Ltd., (東陽青雨傳媒股份有限公司), a company listed and quoted for trading on NEEQ (stock code: 832698), since March 2018, respectively.

Mr HU was a director of China Building Material Test & Certification Group Co., Ltd. (中國建材檢驗認證集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603060), from February 2016 to February 2021.

# BIOGRAPHICAL INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr HUI Chi Fung** ("**Mr HUI**"), aged 65, is an independent non-executive Director. Mr HUI currently is the sole proprietor of Hui Chi Fung Certified Public Accountant. Mr Hui serves as an executive council member and the vice chairman of Corporate Governance Committee and Membership & Talent Committee of The Hong Kong Independent Non-Executive Director Association. Mr HUI holds a MBA degree from The University of Western Ontario. Mr HUI is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants and a member of Chartered Professional Accountants of Canada.

Mr HUI is an experienced business executive with solid accounting and finance background and over 30 years of work experience in information and communications technology and consumer service industry. Mr HUI retired from Fuji Xerox (Hong Kong) Limited ("Fuji Xerox HK"), a subsidiary of FUJIFILM Holdings Corporation, a company listed on The Tokyo Stock Exchange (stock code: TYO: 4901) and Xerox Holdings Corporation, a company listed on NASDAQ (stock code: NASDAQ: XRX), in October 2019. Before his retirement, Mr HUI served as the managing director of Fuji Xerox HK. During his 30 years of work experience in Fuji Xerox HK, Mr HUI was involved in the Fuji Xerox HK's operation including equipment leasing, corporate finance and control, legal and internal audit in Hong Kong and China. Mr HUI also assisted the Fuji Xerox HK in the implementation of the enterprise risk management systems, and the environmental, social and governance initiatives and the establishment of internal audit team in both Hong Kong and China.

**Professor HAN Gaorong** ("**Professor HAN**"), aged 61, is an independent non-executive Director. Professor HAN will provide independent advice and opinion on our strategy, performance, resources and financial operations. Professor HAN is currently a distinguished professor of Zhejiang University (浙江大學), the PRC.

Professor HAN is mainly engaged in the research on inorganic functional nano-materials and new energysaving coated glass. Professor HAN has authored various articles covering topics of the preparation, structure, performance and application of nano-semiconductor thin film materials. Professor HAN had participated in teaching and research projects established by the National Natural Science Foundation of China (國家自然科學基金委員會), China Innovation Funding (國家重點研發計畫) and National Key Technology Research and Development Program of the Ministry of Science and Technology of China (國家科技支 撐計畫). Professor HAN was awarded the second prize of National Science and Technology Progress Award (國家科技進步二等獎) in 2008 and first prize of Zhejiang Province Science and Technology Progress Award (浙江省科技進步一等獎) in 2004 and 2013, respectively. In 2004, Professor HAN was also awarded special government allowances of the State Council (國務院政府特殊津貼).

Professor HAN obtained a bachelor's degree and a doctoral degree in material science and engineering from Zhejiang University (浙江大學), the PRC, in July 1983 and December 1989, respectively. During April 1988 to July 1989, Professor HAN participated in overseas doctoral training at Tokyo Institute of Technology, Japan.

# BIOGRAPHICAL INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

**Mr LEUNG Kwai Wah Alex** ("**Mr LEUNG**"), aged 71, is an independent non-executive Director. Mr LEUNG has over 30 years of experience in banking and finance. Mr LEUNG is a fellow member of Governance Institute of Australia, The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators), Hong Kong Institute of Directors and Hong Kong Securities and Investment Institute. Mr LEUNG is also a full member of Hong Kong Treasury Markets Association.

Mr LEUNG was working in various multinational banks. From March 1982 to May 1986, Mr LEUNG worked in the Hong Kong branch of Manufacturers Hanover Trust Company with his last position as a manager. From June 1986 to July 1988, Mr LEUNG was working as an assistant vice president in the Hong Kong branch of National Westminster Bank USA. Mr LEUNG was a product manager at the headquarters of Canadian Imperial Bank of Commerce during March 1992 to January 1995 and as a relationship manager in Credit Suisse, Hong Kong branch, from September 2006 to January 2008. Mr LEUNG has been an independent non-executive director of New City Development Group Limited, a company listed on the Stock Exchange, since June 2016 (stock code: 00456).

Mr LEUNG obtained a diploma in business management from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in 1979 and a Master of Business Administration degree from Illinois State University, USA in 1981.

## SENIOR MANAGEMENT

**Mr DONG Wenta** ("**Mr DONG**"), aged 57, joined Chesir Pearl in January 2013 as a financial manager and was promoted as the Chief Financial Officer of Chesir Pearl in April 2016. In February 2018, Mr DONG was further promoted as the Deputy General Manager of Chesir Pearl and was appointed as the Deputy General Manager of Chesir Pearl in February 2018. Mr DONG is responsible for monitoring the corporate finance matters of our Group.

Mr DONG has over 35 years of experience in accounting and financial management. Mr DONG is a certified public accountant and an international registered internal auditor in the PRC. From August 1985 to July 2005, Mr DONG worked for the local government of Zhejiang Province for 20 years with his last position as the financial manager of Pingyang Salt Management Bureau (浙江省平陽縣鹽務局). From August 2005 till joining our Group in January 2013, Mr DONG served as a member of the senior management in companies across various industries including coal-mining, investments and financial services in the PRC.

In December 1994, Mr DONG obtained professional certificate in business management from Hangzhou University of Commerce (杭州商學院) (currently known as Zhejiang Gongshang University (浙江工商大學)), the PRC. Mr DONG did not hold any directorship in any listed companies during the last three years.

**Professor FU Jiansheng** ("**Professor FU**"), aged 69, joined Chesir Pearl in May 2015 as Chief Engineer after his retirement as a professor from Hubei University of Technology (湖北工業大學). Professor FU is responsible for the supervision of the research and development and production activities of our Group. Professor FU was a professor of Hubei University of Technology (湖北工業大學) from 2010 to April 2015.

Professor FU has substantial experience in research and development of pearlescent pigment materials and is the inventor of 18 registered patents in the PRC and one registered patent in Japan.

Professor FU obtained a bachelor's degree in chemical engineering from Hubei Institute of Light Industry (湖北輕工業學院) (currently known as Hubei University of Technology (湖北工業大學)), the PRC in July 1982. Professor FU did not hold any directorship in any listed companies during the last three years.

# BIOGRAPHICAL INFORMATION ON DIRECTORS AND SENIOR MANAGEMENT

**Mr MAK Hing Keung, Thomas** ("**Mr MAK**"), aged 61, was an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee until 5 September 2022. Mr MAK has been appointed as the Chief Financial Officer of the Group on 5 September 2022. Mr MAK was appointed as an executive director of CQV, a non-wholly owned subsidiary of the Company and a Korean company with its common shares listed on Korean KOSDAQ market (KOSDAQ: 101240) on 29 August 2023. Mr MAK has over 30 years of work experience in accounting and financial management. In May 1989, Mr MAK obtained a bachelor's degree of commerce from Queen's University, Canada. Mr MAK is currently a member of the Canadian Institute of Chartered Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr MAK was the Principal of the CFO Centre (Hong Kong) during the period from March 2022 to September 2022 and was the chief financial officer of Ke Chuan Holding Co. Limited during the period from February 2021 to January 2022. Before that appointment, Mr MAK was the chief financial officer of M800 Limited from April 2020 to January 2021 and Fortunet E-Commerce Group Limited (currently known as Changyou Alliance Group Limited), a company listed on the main board of the Stock Exchange (stock code: 01039) from January 2017 to January 2020. Mr MAK currently is an independent non-executive director of China PengFei Group Limited (stock code: 03348) and Tao Heung Holdings Limited (stock code: 00573), both of which are listed on main board of the Stock Exchange.

**Mr LIM Kwang-Su** ("**Mr LIM**"), aged 61, is our Vice President and Chief Technology Officer, majored in industrial chemistry at Hongik University of Technology.

Mr LIM served as the R&D Team Leader at Semo Chemical from 1986 to 1998 and the R&D Team Leader at Engelhard Korea from 1998 to 2000.

Mr LIM was a founding member who founded CQV in 2000 with Chang Gil-wan, and was in charge of business management for about 23 years across R&D, production, and management until August 2023, and was appointed as the CEO of CQV on August 22, 2023.

Mr LIM, has been in the pearl pigment business for 37 years and is a leading expert in the development and production of pearl effect pigments.

**Mr KIM Sang Bae** ("**Mr KIM**"), aged 60, is our Vice President and Chief Strategy Officer.

Before joining our Group in January 2023, Mr KIM has over 30 years' working experience in the field of the global capital market and international business strategy. He started his career as Representative of International Arbitration at Korea Exchange Bank (Current Hana Bank) from January 1989 to March 1991. Then, Mr KIM worked as Equity Analyst for SsangYong Investment & Securities Co., Ltd. (Current Shinhan Investment Co., Ltd.) from September 1994 to June 1997. From September 1997 to May 2000, Mr KIM worked as Senior Investment Analyst for Jardine Fleming Securities (Current JPMorgan Chase). Then, Mr KIM worked as Chief Consultant & President for Value C&I Consulting Co., Ltd. from June 2000 to June 2017. From July 2017 to August 2020, Mr KIM worked as Chief Consultant & President for CornerStone 9 Consulting Co., Ltd.

Mr KIM obtained a BA Degree in Industrial Psychology from Sungkyunkwan University, Seoul, Korea in February 1987; a BA Degree in Business Administration and Accounting from Sogang University, Seoul, Korea in February 1989; and an MBA Degree majoring in Finance from Indiana University, Bloomington, Indiana, USA in May 1994.

On 23 August 2023, Mr KIM was appointed as an executive director of CQV, a non-wholly owned subsidiary of the Company and a Korean company with its common shares listed on Korean KOSDAQ market (KOSDAQ: 101240).

# INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF
**GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Global New Material International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 133 to 231, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 IFRS Accounting Standards as issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

## BASIS FOR OPINION

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

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

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

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Impairment assessment of trade and bills receivables*<br><br>Refer to note 24 to the consolidated financial statements.<br><br>As at 31 December 2023, the Group had gross trade and bills receivables of approximately RMB377,413,000 and allowance for doubtful debts of approximately RMB12,100,000.<br><br>In general, the credit terms granted by the Group to customers ranged between 30 days to 180 days. Management performed periodic assessments of the recoverability of trade receivables and the sufficiency of allowance for doubtful debts based on information including credit profile of different customers, ageing of the trade debtors, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment.<br><br>The inherent risk in relation to the impairment assessment of trade and bills receivables is considered significant because the impairment assessment of trade and bills receivables under the expected credit losses model involved the use of significant management judgements and estimates which were subjective. Therefore, we identified the impairment assessment of trade and bills receivables as a key audit matter. | Our procedures in relation to management's impairment assessment of trade and bills receivables included:<br><br>– Understanding and evaluating key internal controls over the Group's impairment assessment of trade and bills receivables;<br><br>– Assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and the level of other inherent risk factors including subjectivity;<br><br>– Evaluating the outcome of prior period assessment of impairment of trade receivables to assess the effectiveness of management's estimation process;<br><br>– Assessing whether trade debtors had been appropriately grouped by management based on their shared credit risk characteristics;<br><br>– Assessing the external valuer's qualifications, experience and expertise and considering their objectivity;<br><br>– Testing the accuracy and completeness of the data used by external valuer to develop the historical loss rates and assessing the sufficiency, reliability and relevance of that data; |

# INDEPENDENT AUDITOR'S REPORT

| Key Audit Matter | How our audit addressed the Key Audit Matter |
| --- | --- |
| *Impairment assessment of trade and bills receivables (continued)* | Our procedures in relation to management's impairment assessment of trade and bills receivables included *(continued)*:<br>– Testing, on a sample basis, the accuracy of the ageing of trade and bills receivables to supporting documents;<br>– With the assistance of our engaged valuation experts, testing the calculation of the historical loss rate and evaluating the reasonableness of the forward-looking adjustments made to reflect current and forecast future economic conditions; and<br>– Testing the calculation of expected credit loss provisions applying the provision rates to the age categories of the trade and bills receivables outstanding at the reporting date. |

# INDEPENDENT AUDITOR'S REPORT

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Impairment assessment of goodwill*<br><br>Refer to note 20 to the consolidated financial statements.<br><br>As at 31 December 2023, the Group had gross goodwill of approximately RMB104,171,000, which arose from the acquisition of CQV Co., Ltd. in the current year. No impairment loss has been provided during the year.<br><br>Goodwill is tested for impairment annually, and whenever indications of impairment were identified.<br><br>Management assessed the recoverable amounts of the separately identifiable cash-generating unit ("CGU") to which the goodwill and other relevant assets were allocated, based on value in use calculated by using discounted cash flow forecasts. An independent appraiser was engaged by management to prepare the valuation report in order for management to assess the impairment. The preparation of discounted cash flow forecasts involves the exercise of significant management's judgement, in particular the forecast revenue growth rates, the forecast operating expenses levels, the terminal growth rate and the discount rates applied. | Our procedures in relation to management's impairment assessment of goodwill included:<br><br>– Understanding and evaluating the key controls over management's impairment assessment and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes, susceptibility to management bias of fraud;<br><br>– assessing management's identification of the CGU, with the assistance of our engaged valuation specialists, the impairment assessment methodology adopted by management with reference to the requirements of the prevailing accounting standards;<br><br>– evaluating the competence, capabilities and objectivity of the independent appraiser engaged by management to assist management to determine the value in use of the CGU; |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| *Impairment assessment of goodwill (continued)*<br><br>The inherent risk in relation to the impairment assessment of goodwill is considered significant because the impairment assessment and forecast future cash flows associated with the CGU, involved the use of significant management judgements and estimates which were subjective. Therefore, we identified the impairment assessment of goodwill as a key audit matter. | Our procedures in relation to management's impairment assessment of goodwill included: *(continued)*<br><br>– obtaining the independent valuation report from the independent appraiser engaged by management and comparing key inputs in the calculations, which include forecast sales growth rates, and operating expenses levels, with the financial budget approved by the directors of the Company, available relevant external data and our own views based on our experience and knowledge of the industry in which the CGU operates;<br><br>– utilising our engaged valuation expert to assist us in evaluating the assumptions and judgements adopted in the discounted cash flow forecasts relating to the terminal growth rate beyond the forecast period and the discount rates applied to derive the recoverable amount of the CGU. This evaluation included researching public information and independently recalculating the discount rates applied with reference to those of other comparable companies in the same industries; and<br><br>– challenging the adequacy of disclosure in the consolidated financial statements in respect of impairment assessments of goodwill. |

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all of 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.

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

We communicate with the Audit Committee, 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 Mr. Tam Shing Yu.

**RSM Hong Kong**
*Certified Public Accountants*
Hong Kong

28 March 2024

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

| | Note | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 7 | 1,064,055 | 916,820 |
| Cost of goods sold | | (528,035) | (455,151) |
| Sales related tax and auxiliary charges | | (7,691) | (6,334) |
| **Gross profit** | | 528,329 | 455,335 |
| Other income and other gains and losses | 8 | 27,955 | 18,301 |
| Reversal of impairment losses/(impairment losses) for trade, bills and other receivables, net | | 618 | (3,505) |
| Selling expenses | | (62,803) | (56,687) |
| Administrative and other operating expenses | | (188,636) | (128,024) |
| **Profit from operations** | | 305,463 | 285,420 |
| Finance costs | 10 | (51,432) | (10,952) |
| **Profit before tax** | | 254,031 | 274,468 |
| Income tax expense | 11 | (40,746) | (37,958) |
| **Profit for the year** | 12 | 213,285 | 236,510 |
| **Attributable to:** | | | |
| Owners of the Company | | 181,578 | 223,788 |
| Non-controlling interests | | 31,707 | 12,722 |
| | | 213,285 | 236,510 |
| **Earnings per share** | 16 | | |
| – Basic (RMB) | | 0.15 | 0.22 |
| – Diluted (RMB) | | 0.15 | 0.22 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Profit for the year** | **213,285** | 236,510 |
| **Other comprehensive income:** | | |
| *Items that will not be reclassified to profit or loss:* | | |
| Remeasurement losses on defined benefit pension plan | **(4,925)** | — |
| Income tax on item that will not be reclassified to profit or loss | **1,029** | — |
| | **(3,896)** | — |
| *Item that may be reclassified to profit or loss:* | | |
| Exchange differences on translating foreign operations | **518** | (3) |
| **Other comprehensive income for the year, net of tax** | **(3,378)** | (3) |
| **Total comprehensive income for the year** | **209,907** | 236,507 |
| **Attributable to:** | | |
| Owners of the Company | **180,186** | 223,785 |
| Non-controlling interests | **29,721** | 12,722 |
| | **209,907** | 236,507 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

| | Note | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | 1,105,166 | 759,364 |
| Right-of-use assets | 18 | 66,265 | 63,256 |
| Intangible assets | 19 | 23,787 | — |
| Deposits paid for acquisition of property, plant and equipment | | — | 184 |
| Goodwill | 20 | 104,171 | — |
| Restricted deposit | 21 | 2,050 | — |
| Defined benefit assets, net | 35 | 5,246 | — |
| Deposits and other receivables | 25 | 1,418 | — |
| Deferred tax assets | 34 | 11,835 | 1,190 |
| **Total non-current assets** | | 1,319,938 | 823,994 |
| **Current assets** | | | |
| Inventories | 23 | 237,319 | 120,130 |
| Trade and bills receivables | 24 | 365,313 | 308,119 |
| Deposits, prepayments and other receivables | 25 | 27,803 | 21,900 |
| Restricted deposit | 21 | 375 | — |
| Tax recoverable | | 1,058 | — |
| Bank and cash balances | 26 | 3,203,476 | 1,882,727 |
| **Total current assets** | | 3,835,344 | 2,332,876 |
| **TOTAL ASSETS** | | 5,155,282 | 3,156,870 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

| | Note | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 27 | 103,701 | 99,319 |
| Reserves | 29 | 3,052,789 | 2,258,121 |
| | | 3,156,490 | 2,357,440 |
| Non-controlling interests | | 928,655 | 185,886 |
| **Total equity** | | 4,085,145 | 2,543,326 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank loans and other borrowings | 30 | 94,614 | 130,940 |
| Convertible bonds | 31 | 576,142 | 294,217 |
| Lease liabilities | 32 | 3,046 | 66 |
| Other payables | 37 | 468 | — |
| Deferred revenue | 33 | 6,319 | 2,455 |
| Deferred tax liabilities | 34 | 17,981 | 4,703 |
| **Total non-current liabilities** | | 698,570 | 432,381 |
| **Current liabilities** | | | |
| Bank loans and other borrowings | 30 | 232,376 | 72,373 |
| Derivative component of convertible bonds | 31 | 5,706 | 5,783 |
| Lease liabilities | 32 | 1,863 | 211 |
| Trade payables | 36 | 33,257 | 23,551 |
| Accruals and other payables | 37 | 84,820 | 74,178 |
| Contract liabilities | 38 | 184 | 13 |
| Deferred revenue | 33 | 4,614 | 1,448 |
| Current tax liabilities | | 8,747 | 3,606 |
| **Total current liabilities** | | 371,567 | 181,163 |
| **TOTAL EQUITY AND LIABILITIES** | | 5,155,282 | 3,156,870 |

Approved by the Board of Directors on 28 March 2024 and are signed on its behalf by:

| | |
|---|---|
| **SU Ertian** | **ZHOU Fangchao** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Other reserve RMB'000 | Merger reserve RMB'000 | Foreign currency translation reserve RMB'000 | Statutory surplus reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2022 | 99,319 | 739,278 | 726,299 | 137,549 | (15) | 60,778 | 406,281 | 2,169,489 | 173,164 | 2,342,653 |
| Profit for the year | – | – | – | – | – | – | 223,788 | 223,788 | 12,722 | 236,510 |
| Other comprehensive income | – | – | – | – | (3) | – | – | (3) | – | (3) |
| Total comprehensive income for the year | – | – | – | – | (3) | – | 223,788 | 223,785 | 12,722 | 236,507 |
| Transactions with owners in their capacity as owners: | | | | | | | | | | |
| Transfer of statutory reserve | – | – | – | – | – | 17,079 | (17,079) | – | – | – |
| Dividend paid (note 15) | – | (35,834) | – | – | – | – | – | (35,834) | – | (35,834) |
| | – | (35,834) | – | – | – | 17,079 | (17,079) | (35,834) | – | (35,834) |
| At 31 December 2022 | 99,319 | 703,444 | 726,299 | 137,549 | (18) | 77,857 | 612,990 | 2,357,440 | 185,886 | 2,543,326 |
| At 1 January 2023 | 99,319 | 703,444 | 726,299 | 137,549 | (18) | 77,857 | 612,990 | 2,357,440 | 185,886 | 2,543,326 |
| Profit for the year | – | – | – | – | – | – | 181,578 | 181,578 | 31,707 | 213,285 |
| Other comprehensive income | – | – | – | – | 261 | – | (1,653) | (1,392) | (1,986) | (3,378) |
| Total comprehensive income for the year | – | – | – | – | 261 | – | 179,925 | 180,186 | 29,721 | 209,907 |
| Transactions with owners in their capacity as owners: | | | | | | | | | | |
| Shares issued for acquisition of a subsidiary (note 27) | 4,382 | 182,928 | – | – | – | – | – | 187,310 | – | 187,310 |
| Acquisition of a subsidiary (note 39(a)) | – | – | – | – | – | – | – | – | 186,886 | 186,886 |
| Acquisition of non-controlling interests (note 39(b)(i) & (ii)) | – | – | (723) | – | – | – | – | (723) | (179,461) | (180,184) |
| Disposal of non-controlling interests (note 39(b)(iii)) | – | – | (10,711) | – | – | – | – | (10,711) | 148,611 | 137,900 |
| Deemed disposal of a subsidiary without change in control (note 39(b)(iv)) | – | – | 442,988 | – | – | – | – | 442,988 | 557,012 | 1,000,000 |
| Transfer of statutory reserve | – | – | – | – | – | 5,124 | (5,124) | – | – | – |
| | 4,382 | 182,928 | 431,554 | – | – | 5,124 | (5,124) | 618,864 | 713,048 | 1,331,912 |
| At 31 December 2023 | 103,701 | 886,372 | 1,157,853 | 137,549 | 243 | 82,981 | 787,791 | 3,156,490 | 928,655 | 4,085,145 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

| | Note | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 254,031 | 274,468 |
| Adjustments for: | | | |
| Finance costs | | 51,432 | 10,952 |
| Interest income | | (11,712) | (15,403) |
| Depreciation on property, plant and equipment | | 58,848 | 37,359 |
| Depreciation on right-of-use assets | | 2,252 | 1,668 |
| Amortisation of intangible assets | | 2,988 | — |
| Amortisation of deferred revenue | | (6,256) | (1,448) |
| Reversal of impairment losses/(impairment losses) for trade, bills and other receivables, net | | (618) | 3,505 |
| Allowance for inventories | | 117 | — |
| Gain on disposal of property, plant and equipment | | — | (6) |
| Gain on termination of a lease contract | | — | (176) |
| Fair value gain on derivative component of convertible bonds | | (2,913) | — |
| Net foreign exchange losses | | 58 | 3,453 |
| **Operating profit before working capital changes** | | 348,227 | 314,372 |
| Decrease/(increase) in inventories | | 2,767 | (18,315) |
| Decrease/(increase) in trade and bills receivables | | 1,433 | (73,907) |
| Increase in deposits, prepayments and other receivables | | (1,796) | (1,360) |
| Increase/(decrease) in trade payables | | 2,425 | (14,012) |
| Increase in defined benefit asset | | (106) | — |
| Increase in deferred revenue | | 4,217 | — |
| (Decrease)/increase in accruals and other payables | | (11,044) | 16,110 |
| Decrease in contract liabilities | | (339) | — |
| **Cash generated from operations** | | 345,784 | 222,888 |
| Income tax paid | | (38,653) | (32,003) |
| Interest on lease liabilities | | (108) | (20) |
| Interest paid | | (23,806) | (9,384) |
| **Net cash generated from operating activities** | | 283,217 | 181,481 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (161,717) | (225,545) |
| Proceeds from disposals of property, plant and equipment | | — | 24 |
| Acquisition of a subsidiary | 39(a) | (62,485) | — |
| Payments for right-of-use assets | | (155) | — |
| Decrease in restricted bank deposits | | — | 40,000 |
| Increase in restricted deposit | | (2,425) | — |
| Decrease/(increase) in in time deposits with maturities of over three months but less than one year | | 160,000 | (160,000) |
| Interest received | | 11,712 | 15,403 |
| **Net cash used in investing activities** | | (55,070) | (330,118) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

| | Note | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Bank loans and other borrowings raised | | 234,417 | 177,235 |
| Repayment of bank loans and other borrowings | | (201,270) | (135,240) |
| Principal elements of lease payments | | (464) | (233) |
| Proceeds from disposal of partial interest in a subsidiary | 39(b)(iii) | 137,900 | — |
| Proceeds from deemed disposal of partial interest in a subsidiary | 39(b)(iv) | 1,000,000 | — |
| Proceeds from issue of convertible bonds, net | | 261,346 | 300,000 |
| Dividend paid to owners of the Company | | — | (35,834) |
| Payment for the acquisition of non-controlling interests in a subsidiary | 39(b) (i)&(ii) | (180,184) | — |
| **Net cash generated from financing activities** | | 1,251,745 | 305,928 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 1,479,892 | 157,291 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | 857 | (27) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | 1,722,727 | 1,565,463 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | | 3,203,476 | 1,722,727 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | |
| Bank and cash balances | 26 | 3,203,476 | 1,882,727 |
| Less: Time deposits with maturities of over three months but less than one year | | — | (160,000) |
| | | 3,203,476 | 1,722,727 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 1. GENERAL INFORMATION

Global New Material International Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Pearlescent Industrial Park, No. 380, Feilu Road, Luzhai Town, Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the People's Republic of China (the "PRC"). The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 22 to the consolidated financial statements.

## 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable IFRS Accounting Standards issued by the International Accounting Standards Board (the "IASB"). IFRS Accounting Standards comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Companies Ordinance (Cap. 622).

The IASB has issued certain new and revised IFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

## 3. ADOPTION OF NEW AND REVISED IFRS ACCOUNTING STANDARDS

### (a) Application of new and revised IFRS Accounting Standards

The Group has applied the following new and amendments to IFRS Accounting Standards issued by IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

| | |
|---|---|
| IFRS 17 | Insurance Contracts |
| Amendments to IAS 8 | Definition of Accounting Estimates |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to IAS 12 | International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12 |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies |

## 3. ADOPTION OF NEW AND REVISED IFRS ACCOUNTING STANDARDS *(continued)*

### (a) Application of new and revised IFRS Accounting Standards *(continued)*

Except as described below, the application of the new and amendments to IFRS Accounting Standards in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### Impact on application of Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of Accounting Policies"

The Group has adopted Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of Accounting Policies" for the first time in the current year. IAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". 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.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 "Making Materiality Judgements" (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in note 4 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 3. ADOPTION OF NEW AND REVISED IFRS ACCOUNTING STANDARDS *(continued)*

### (b) Revised IFRS Accounting Standards in issue but not yet effective

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

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to IAS 1 - Classification of Liabilities as Current or Non-current | 1 January 2024 |
| Amendments to IAS 1 - Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to IFRS 16 - Lease Liability in a Sales and Leaseback | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements | 1 January 2024 |
| Amendments to IAS 21 – Lack of Exchangeability | 1 January 2025 |
| Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined by the IASB |

The directors of the Company anticipate that the application of all amendments to IFRS Accounting Standards will not have material impact on the consolidated financial statements in the foreseeable future.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The material accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (a) Consolidation *(continued)*

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

### (b) Separate financial statements

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss. Cost includes direct attributable cost of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from this investment if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (c) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are, with limited exceptions, measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### (d) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (d) Foreign currency translation *(continued)*

#### (ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### (iii) Translation on consolidation

The results and financial position of all foreign operations (none of which has the currency of hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (e) Property, plant and equipment

Property, plant and equipment are held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

With the exception of freehold land which is not depreciated, depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The useful lives are as follows:

| | |
|---|---|
| Buildings | 20 years |
| Plant and machinery | 10 years |
| Motor vehicles | 5 years |
| Office equipment | 3 - 5 years |
| Leasehold improvements | 3 years |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (f) Leases

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### (i) The Group as a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the group entities, which do not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (f) Leases *(continued)*

#### (i) The Group as a lessee *(continued)*

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

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

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (f) Leases *(continued)*

#### (ii) Sale and leaseback transactions

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee continues to recognise the assets and accounts for the transfer proceeds as other borrowings within the scope of IFRS 9.

### (g) Intangible assets

#### (i) Internally-generated intangible assets – research and development cost

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs that are attributable to the design and testing of identifiable and unique products and techniques controlled by the Group are recognised only if all of the following conditions are met:

– The technical feasibility of completing the intangible asset so that it will be available for use or sale;

– Management intends to complete the intangible asset and use or sell it;

– There is ability to use or sell the intangible asset;

– It can be demonstrated how the intangible asset will generate probable future economic benefits;

– Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available;

– The expenditure attributable to the intangible asset during its development can be reliably measured.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (g) Intangible assets *(continued)*

#### (ii) Intangible assets acquired separately – trademark, customer relationships, industrial property rights, software and development costs

Trademarks, customer relationships, industrial property rights, software and development costs acquired in a business combination are recognised separately from goodwill and initially recognised at fair value at the acquisition date (which is recognised as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Trademark | 10 years |
| Customer relationships | 15 years |
| Industrial property rights | 5 - 10 years |
| Software | 5 years |
| Development costs | 5 years |

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. The costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### (i) Contract assets and contract liabilities

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 4(y) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (k) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVTPL if the investment does not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

### (l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method less allowance for credit losses.

### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (n) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRS Accounting Standards. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### (o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (p) Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; this amount is carried as a derivative liability that is subsequently measured at FVTPL until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition. The portion related to the derivative component is expensed immediately.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (q) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (r) Equity instruments

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

### (s) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sale of goods is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (t) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

#### (ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and the PRC. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

For the defined benefit retirement plans, the liability (asset) recognised in the consolidated statement of financial position is the present value of the defined benefit obligation less the fair value of plan assets. When there is a surplus in a defined benefit plan, the net defined benefit asset is measured at the lower of the surplus in the defined benefit plan and the asset ceiling. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. If there is no deep market in such bonds, the market rates on government bonds denominated in that currency are used.

Remeasurements of the net defined benefit liability (asset) - which include actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)), and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)) - are recognised in other comprehensive income in the period in which they arise and will not be reclassified to profit or loss.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (t) Employee benefits *(continued)*

#### (ii) Pension obligations *(continued)*

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income; and
- Remeasurement.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reduction in future contributions to the plan.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (t) Employee benefits *(continued)*

#### (iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

### (u) Borrowing costs

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

### (v) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (w) Taxation

Income tax represents the sum of the current tax and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

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

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (w) Taxation *(continued)*

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to right-of-use assets and lease liabilities separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised and a deferred tax liability for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends either to settle its current tax assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

Certain companies within the Group may be entitled to claim special tax deductions in relation to qualifying expenditure (e.g. the Research and Development Tax Incentive regime in the PRC). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

### (x) Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

The carrying amounts of other non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount 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. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the assets of the cash-generating unit. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (y) Impairment of financial assets

The Group recognises a loss allowance for ECL on trade and other receivables, restricted deposit and bank and cash balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

#### Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (y) Impairment of financial assets *(continued)*

#### Significant increase in credit risk *(continued)*

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

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

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

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

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor;

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

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) the financial instrument has a low risk of default,

(ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (y) Impairment of financial assets *(continued)*

#### Significant increase in credit risk *(continued)*

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

#### Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

#### Credit-impaired financial assets

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (y) Impairment of financial assets *(continued)*

#### Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

## 4. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

### (z) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

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

### (aa) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

In applying the Group's accounting policies, which are described in note 4, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) Consolidation of entity with less than 50% equity interest holding

CQV Co., Ltd. ("CQV") is a subsidiary of the Group although the Group has only 42.45% ownership interest and voting rights in CQV. CQV is listed on The Korean Securities Dealers Automated Quotations （the "KOSDAQ"） of The Korea Exchange. The Group has the 42.45% ownership since 22 August 2023 and the remaining 57.55% of shareholdings are owned by thousands shareholders that are unrelated to the Group. Details of CQV are set out in note 22.

The directors of the Company assessed whether the Group has control over CQV based on whether the Group has the practical ability to direct the relevant activities of CQV unilaterally. In making the judgement, the directors of the Company considered the Group's absolute size of holding in CQV and the relative size of and dispersion of the shareholdings owned by the other shareholders. After assessment, the directors of the Company concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of CQV and therefore the Group has control over CQV.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

### Critical judgements in applying accounting policies *(continued)*

(b) Significant increase in credit risk

As explained in note 4, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

### Key sources of 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 discussed below.

(a) Deferred tax asset

As at 31 December 2023, no deferred tax asset has been recognised on the tax losses of approximately RMB48,122,000 (2022: RMB32,009,000) for certain subsidiaries due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future, which is a key source of estimation uncertainty. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than the expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

The carrying amount of goodwill at the end of the reporting period was approximately RMB104,171,000 (2022: Nil) and no impairment loss was recognised during the year.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

### Key sources of estimation uncertainty *(continued)*

(c) Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

The carrying amount of property, plant and equipment and right-of-use assets as at 31 December 2023 were approximately RMB1,105,166,000 (2022: RMB759,364,000) and RMB66,265,000 (2022: RMB63,256,000) respectively.

(d) Impairment of trade and bills receivables

The Group uses practical expedient in estimating ECL on trade and bills receivables using a provision matrix. The provision rates are based on ageing of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

As at 31 December 2023, the carrying amount of trade and bills receivables was approximately RMB365,313,000 (net of allowance for doubtful debts of RMB12,100,000) (2022: RMB308,119,000 (net of allowance for doubtful debts of RMB10,990,000)).

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

### Key sources of estimation uncertainty *(continued)*

(e) Allowance for slow-moving inventories and net realisable value of inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. During the year ended 31 December 2023, allowance for slow-moving inventories of approximately RMB117,000 was made (2022: Nil).

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer's taste and competitor's actions in response to severe industry cycles. The Group will reassess the estimates by the end of each reporting period.

(f) Fair value of derivative component

As disclosed in note 31 to the consolidated financial statements, the fair value of the derivative component of the convertible bonds at the date of issue and the end of the reporting period were determined using option pricing models. Application of option pricing models requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative component, the expected volatility of the share prices of the Company and the potential dilution in the share prices of the Company. Where the estimation of these factors is different from those previously estimated, such differences will impact the fair value gain or loss on the derivative component in the period in which such determination is made.

The carrying amount of the derivative financial liabilities as at 31 December 2023 was approximately RMB5,706,000 (2022: RMB5,783,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

### Key sources of estimation uncertainty *(continued)*

(g) Actuarial assumptions on defined benefit retirement plans

Accounting for defined benefit plans may be complex because actuarial assumptions are required to measure the obligation and the expense, with the possibility that actual results differ from the assumed results. These differences are known as actuarial gains and losses. Defined benefit obligations are measured using the Projected Unit Credit Method ("PUCM"), according to which the Group has to make a reliable estimate of the amount of benefits earned in return for services rendered in current and prior periods, using actuarial techniques. In addition, in cases where defined benefit plans are funded, the Group has to estimate the fair value of plan assets. As a result, the use of the PUCM involves a number of actuarial assumptions. These assumptions include demographic assumptions such as mortality, turnover and retirement age and financial assumptions such as discount rates, salary and benefit levels. Such assumptions are subject to judgements and may develop materially differently than expected and therefore may result in significant impacts on defined benefit obligations.

The carrying amount of defined benefit assets, net as at 31 December 2023 was approximately RMB5,246,000 (2022: Nil).

## 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has certain exposure to foreign currency risk as its business transactions, assets and liabilities are principally denominated in Hong Kong dollars ("HK$"), United States dollars ("US$"), Japanese Yen ("JPY"), and Euro ("EUR"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2023, if the RMB had weakened 5 per cent against HK$ with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB421,000 (2022: RMB2,612,000) lower, arising mainly as a result of the net foreign exchange loss on accruals and other payables and lease liabilities (2022: bank and cash balances and other borrowings) denominated in HK$. If the RMB had strengthened 5 per cent against HK$ with all other variables held constant, consolidated profit after tax for the year would have been RMB421,000 (2022: RMB2,612,000) higher, arising mainly as a result of the net foreign exchange gain on accruals and other payables and lease liabilities (2022: bank and cash balances and other borrowings) denominated in HK$.

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (a) Foreign currency risk *(continued)*

At 31 December 2023, if the RMB had weakened 5 per cent against US$ with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB7,650,000 (2022: RMB416,000) lower, arising mainly as a result of the net foreign exchange loss on bank and cash balances and convertible loans (2022: trade payables and bank loans and other borrowings) denominated in US$. If the RMB had strengthened 5 per cent against US$ with all other variables held constant, consolidated profit after tax for the year would have been RMB7,650,000 (2022: RMB416,000) higher, arising mainly as a result of the net foreign exchange gain on bank and cash balances and convertible loans (2022: trade payables and bank loans and other borrowings) denominated in US$.

At 31 December 2023, if the RMB had weakened 5 per cent against JPY with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB407,000 higher (2022: Nil), arising mainly as a result of the net foreign exchange gain on bank and cash balances and trade and bills receivables denominated in JPY. If the RMB had strengthened 5 per cent against JPY with all other variables held constant, consolidated profit after tax for the year would have been RMB407,000 lower (2022: Nil), arising mainly as a result of the net foreign exchange loss on bank and cash balances and trade and bills receivables denominated in JPY.

At 31 December 2023, if the RMB had weakened 5 per cent against EUR with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB352,000 lower (2022: Nil), arising mainly as a result of the net foreign exchange loss on accruals and other payables and trade payables denominated in EUR. If the RMB had strengthened 5 per cent against EUR with all other variables held constant, consolidated profit after tax for the year would have been RMB352,000 higher (2022: Nil), arising mainly as a result of the net foreign exchange gain on accruals and other payables and trade payables denominated in EUR.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks with acceptable credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

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

Trade and bills receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-180 days from the date of billing. Debtors with balances that are more than 90-180 days past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 84% (2022: 99%) of the total trade receivables as at 31 December 2023. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (b) Credit risk *(continued)*

Trade and bills receivables *(continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2023:

| | 2023 | | |
|---|---|---|---|
| | **Expected loss rate %** | **Gross carrying amount RMB'000** | **Loss allowance RMB'000** |
| Current (not past due) | 2.49% | 365,631 | 9,091 |
| 1 - 90 days past due | 0.26% | 8,790 | 23 |
| 91- 365 days past due | N/A | 6 | — |
| Over 1 year past due | 100.00% | 2,986 | 2,986 |
| | | 377,413 | 12,100 |

| | 2022 | | |
|---|---|---|---|
| | **Expected loss rate %** | **Gross carrying amount RMB'000** | **Loss allowance RMB'000** |
| Current (not past due) | 3.04% | 316,080 | 9,609 |
| 1 - 90 days past due | 9.30% | 1,817 | 169 |
| 91- 365 days past due | N/A | — | — |
| Over 1 year past due | 100.00% | 1,212 | 1,212 |
| | | 319,109 | 10,990 |

Expected loss rates are based on actual loss experience over the past 1 (2022: 1) year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (b) Credit risk *(continued)*

Trade and bills receivables *(continued)*

Movement in the loss allowance for trade receivables during the year is as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| At 1 January | 10,990 | 7,223 |
| Acquisition of a subsidiary | 1,779 | — |
| Impairment losses recognised for the year | 523 | 3,824 |
| Reversal of impairment losses for the year | (1,191) | (57) |
| Exchange differences | (1) | — |
| At 31 December | 12,100 | 10,990 |

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during 2023:

– acquisition of a subsidiary resulted in a net increase in loss allowance of approximately RMB1,775,000.

Financial assets at amortised cost

All of the Group's financial instruments at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12-month expected losses. Instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets at amortised cost include deposits and other receivables.

Movement in the loss allowance for other receivables during the year is as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| At 1 January | 259 | 521 |
| Impairment losses recognised for the year | 52 | — |
| Reversal of impairment losses for the year | (2) | (262) |
| At 31 December | 309 | 259 |

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (c) Liquidity risk

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

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

| | Weighted average interest rate % | On demand or less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2023** | | | | | | |
| Trade payables | | 33,257 | – | – | 33,257 | 33,257 |
| Accruals and other payables | | 84,820 | 468 | – | 85,288 | 85,288 |
| Bank loans and other borrowings (note) | | | | | | |
| – fixed rate | 5.26% | 305,358 | 32,019 | 3,689 | 341,066 | 326,990 |
| Convertible bonds | 12.19% | 35,998 | 319,306 | 310,500 | 665,804 | 576,142 |
| Lease liabilities | 7.36% | 2,104 | 1,943 | 1,271 | 5,318 | 4,909 |
| | | 461,537 | 353,736 | 315,460 | 1,130,733 | 1,026,586 |

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (c) Liquidity risk *(continued)*

| | Weighted average interest rate % | On demand or less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2022** | | | | | | |
| Trade payables | | 23,551 | – | – | 23,551 | 23,551 |
| Accruals and other payables | | 74,178 | – | – | 74,178 | 74,178 |
| Bank loans and other borrowings (note) | | | | | | |
| – fixed rate | 5.62% | 81,124 | 132,960 | – | 214,084 | 203,313 |
| Convertible bond | 9.96% | 10,500 | 10,500 | 321,000 | 342,000 | 294,217 |
| Lease liabilities | 5.12% | 220 | 42 | 32 | 294 | 277 |
| | | 189,573 | 143,502 | 321,032 | 654,107 | 595,536 |

Note: Other borrowings with a repayment on demand clause are included in the 'on demand or less than 1 year' time band in the above maturity analysis. As at 31 December 2023 and 31 December 2022, the aggregate undiscounted principal amounts of these other borrowings amounted to approximately RMB55,062,000 and RMB69,873,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the counterparties will exercise their discretionary rights to demand immediate repayment. The directors believe that such other borrowings will be repaid one to three years (2022: two to three years) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately RMB59,032,000 (2022: RMB71,755,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 6. FINANCIAL RISK MANAGEMENT *(continued)*

### (d) Interest rate risk

The Group's bank loans and other borrowings bear interest at fixed interest rates and therefore are subject to fair value interest rate risk.

The Group's exposure to interest-rate risk arises from its bank deposits. These deposits bear interests at variable rates that varied with the then prevailing market condition.

At 31 December 2023, it is estimated that a general increase/(decrease) of 100 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax for the year as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Increase/(decrease) in interest rates | | |
| 100 basis points | **26,956** | 14,820 |
| (100) basis points | **(26,956)** | (14,820) |

The sensitivity analysis above indicates the impact on the Group's profit for the year and retained earnings that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis thorough the year.

### (e) Categories of financial instruments at 31 December

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets measured at amortised cost | **3,574,965** | 2,191,613 |
| **Financial liabilities** | | |
| Derivative component of convertible bonds | **5,706** | 5,783 |
| Financial liabilities measured at amortised cost | **1,021,677** | 595,259 |
| Lease liabilities | **4,909** | 277 |

### (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 7. REVENUE

### Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the year is as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Revenue from contracts with customers within the scope of IFRS 15** | | |
| Disaggregated by major products | | |
| Pearlescent pigment | 964,003 | 850,699 |
| Functional mica filler and related products | 89,433 | 66,121 |
| Trading of pigment | 10,593 | — |
| Others | 26 | — |
| Total | 1,064,055 | 916,820 |

The Group derives revenue from the transfer of goods at a point in time.

## 8. OTHER INCOME AND OTHER GAINS AND LOSSES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Interest income on bank deposits | 11,712 | 15,403 |
| Government grants (note) | 8,317 | 6,467 |
| Net foreign exchange gains/(losses) | 4,830 | (3,753) |
| Gain on termination of a lease contract | — | 176 |
| Gain on disposal of property, plant and equipment | — | 6 |
| Fair value gain on derivative component of convertible bonds | 2,913 | — |
| Sundry income | 183 | 2 |
| | 27,955 | 18,301 |

Note: Government grants mainly related to the subsidies and rewards received from the local government authority for research and development and the achievements accomplished by the Group.

## 9. SEGMENT INFORMATION

The chief operating decision maker has been identified as the executive directors of the Company.

On 22 August 2023, the Group has acquired 42.45% of the issued capital of CQV, an entity engaging in the manufacturing and sales of pearlescent pigment in the Republic of Korea (the "Korea Business Operation"), and CQV has become a subsidiary of the Group. For details, refer to notes 5 and 39(a).

Prior to the acquisition, the Group previously carried on a single business which is manufacturing and sales of pearlescent pigments products and functional mica filler and related products in the PRC (the "PRC Business Operation"), and all the assets are substantially located in the PRC. Accordingly, only one single business reportable segment was determined based on the information reported to the directors of the Company.

Following the acquisition of CQV in August 2023, the directors of the Company has updated the internal reporting for resource allocation and assessment of segment performance, based on the geographical location of business operation. Accordingly, the Group has identified two reportable segments, namely the PRC Business Operation and the Korea Business Operation, as opposed to the previous single reportable segment. The comparative figures of the PRC Business Operation for the year ended 31 December 2022 were provided to align with the current year presentation.

As at 31 December 2023, the Group has identified two reportable segments as follows:

| | | |
|---|---|---|
| PRC Business Operation | — | manufacturing and sales of pearlescent pigment and functional mica filler in the PRC |
| Korea Business Operation | — | manufacture and sale of pearlescent pigment in the Republic of Korea ("Korea") |

The Group's reportable segments are strategic business units that managed by separate management. They are managed separately because each business requires different marketing strategies.

The accounting policies of the reportable segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include unallocated administrative expenses, other income, other gains and losses, finance costs and income tax credit or expenses. Segment assets do not include unallocated prepayment, deposit, tax recoverable and bank and cash balances. Segment liabilities do not include unallocated accruals and other payables, convertible bonds, derivative component of convertible bonds, lease liabilities and current tax liabilities.

The Group accounts for inter-segment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 9. SEGMENT INFORMATION *(continued)*

**Information about reportable segment profit or loss, assets and liabilities:**

| | PRC Business Operation RMB'000 | Korea Business Operation RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Year ended 31 December 2023** | | | |
| Revenue from external customers | | | |
| – Pearlescent pigment | 871,516 | 92,487 | 964,003 |
| – Functional mica filler and related products | 89,433 | — | 89,433 |
| – Trading of pigments | — | 10,593 | 10,593 |
| – Others | — | 26 | 26 |
| Intersegment revenue | 388 | — | 388 |
| Total revenue of reportable segments | 961,337 | 103,106 | 1,064,443 |
| Segment profit | 266,560 | 8,946 | 275,506 |
| Interest income | 8,882 | 85 | 8,967 |
| Interest expense | 20,656 | 1,369 | 22,025 |
| Depreciation and amortisation | 53,595 | 9,871 | 63,466 |
| Income tax expense | 39,668 | 1,078 | 40,746 |
| Additions to segment non-current assets (other than those arising from the acquisition of CQV) | 159,489 | 1,263 | 160,752 |
| **As at 31 December 2023** | | | |
| Segment assets | 4,180,031 | 617,378 | 4,797,409 |
| Segment liabilities | 638,209 | 100,291 | 738,500 |

## 9. SEGMENT INFORMATION *(continued)*

**Information about reportable segment profit or loss, assets and liabilities:** *(continued)*

| | PRC Business Operation RMB'000 |
|---|---|
| **Year ended 31 December 2022** | |
| Revenue from external customers | |
| – Pearlescent pigment | 850,699 |
| – Functional mica filler and related products | 66,121 |
| Total revenue of reportable segment | 916,820 |
| Segment profit | 254,151 |
| Interest income | 15,401 |
| Interest expense | 10,942 |
| Depreciation and amortisation | 38,786 |
| Income tax expense | 35,790 |
| Additions to segment non-current assets | 225,545 |
| **As at 31 December 2022** | |
| Segment assets | 2,856,296 |
| Segment liabilities | 308,201 |

## 9. SEGMENT INFORMATION *(continued)*

**Reconciliations of segment revenue and profit or loss:**

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Total revenue of reportable segments | 1,064,443 | 916,820 |
| Elimination of intersegment revenue | (388) | — |
| Consolidated revenue | 1,064,055 | 916,820 |
| **Profit or loss** | | |
| Total profit or loss of reportable segments | 275,506 | 254,151 |
| Unallocated amounts: | | |
| Administrative expenses | (43,710) | (11,255) |
| Interest expenses | (29,407) | (10) |
| Interest income | 2,745 | 2 |
| Others | 8,151 | (6,378) |
| Consolidated profit after tax | 213,285 | 236,510 |

**Reconciliations of segment assets and liabilities:**

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Assets** | | |
| Total assets of reportable segments | 4,797,409 | 2,856,296 |
| Unallocated assets: | | |
| Right-of-use assets | 4,142 | 172 |
| Property, plant and equipment | 1,112 | — |
| Bank and cash balances | 350,791 | 300,141 |
| Others | 1,828 | 261 |
| Consolidated total assets | 5,155,282 | 3,156,870 |

## 9. SEGMENT INFORMATION *(continued)*

**Reconciliations of segment assets and liabilities:** *(continued)*

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Liabilities** | | |
| Total liabilities of reportable segments | **738,500** | 308,201 |
| Unallocated liabilities: | | |
| Convertible bonds | **313,029** | 294,217 |
| Derivative component of convertible bonds | **3,822** | 5,783 |
| Others | **14,786** | 5,343 |
| Consolidated total liabilities | **1,070,137** | 613,544 |

**Geographical information:**

The Group's revenue from external customers by location of operations are detailed below:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| The PRC | **961,325** | 896,477 |
| The Republic of Korea | **38,341** | — |
| The United States | **9,771** | — |
| Others | **54,618** | 20,343 |
| Consolidated total | **1,064,055** | 916,820 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 9. SEGMENT INFORMATION *(continued)*

**Geographical information:** *(continued)*

The Group's information about its non-current assets, other than restricted deposit, defined benefit assets, net, deposits and other receivables and deferred tax assets, by location of assets are detailed below:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| The PRC | 928,298 | 822,561 |
| Korea | 365,789 | — |
| Hong Kong | 5,255 | 172 |
| Others | 47 | 71 |
| Consolidated total | 1,299,389 | 822,804 |

### Revenue from major customers:

There was no customer that had contributed over 10% of the Group's revenue during the year ended 31 December 2023 and 2022.

## 10. FINANCE COSTS

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Interest on bank loans and other borrowings | 16,723 | 10,932 |
| Interest expenses on lease liabilities (note 18) | 108 | 20 |
| Interest on convertible bonds (note 31) | 34,601 | — |
| | 51,432 | 10,952 |

## 11. INCOME TAX EXPENSE

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Current tax | | |
| Provision for the year | | |
| - PRC Enterprise Income Tax | 36,312 | 31,477 |
| - Korea Corporate Income Tax | 2,074 | — |
| - Hong Kong Profits Tax | — | 694 |
| | 38,386 | 32,171 |
| Under/(over)-provision in prior year | | |
| - PRC Enterprise Income Tax | 946 | 979 |
| - Hong Kong Profits Tax | (1) | 1,474 |
| | 945 | 2,453 |
| | 39,331 | 34,624 |
| Deferred tax (note 34) | 1,415 | 3,334 |
| | 40,746 | 37,958 |

Under the two-tiered Profits Tax regime, the first HK$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25%, and profits above that amount will be subject to the tax rate of 16.5%. The profits of the group entities not qualifying for the two-tiered Profit Tax rate regime will continue to be taxed at a rate of 16.5%.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Except for the preferential PRC Enterprise Income Tax ("EIT") rate applicable to the subsidiaries of the Company in the PRC as described below, other subsidiaries of the Company in the PRC are subject to PRC EIT at a rate of 25% (2022: 25%) for the year.

Korea Corporate Income Tax is calculated at 9% for assessable income below Korean Won ("KRW") 200 million, 19% for assessable income between KRW200 million and KRW20 billion, 21% for assessable income between KRW20 billion and KRW300 billion and 24% for assessable income above KRW300 billion for the year.

France Corporation Tax is calculated at the applicable rate of 25% in accordance with the relevant law and regulations in France for both years.

The Company is incorporated in the Cayman Islands and subject to Hong Kong Profits Tax. No provision for Hong Kong Profits Tax has been made in the financial statements since the Company has no assessable profit for the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

### 11. INCOME TAX EXPENSE *(continued)*

The subsidiary incorporated in the British Virgin Islands is not subject to income tax.

Those subsidiaries incorporated in Hong Kong and France have had no assessable profit subject to Hong Kong Profits Tax or France Corporation Tax during the year ended 31 December 2023 and 2022, respectively.

Pursuant to the relevant laws and regulations in the PRC, 廣西七色珠光材料股份有限公司 (Guangxi Chesir Pearl Material Co., Ltd.) ("Chesir Pearl") and 鹿寨七色珠光雲母材料有限公司 (Luzhai Chesir Pearl Mica Material Co., Ltd.) ("Chesir Luzhai"), subsidiaries of the Company, obtained the high and new technology enterprise certificate to entitle to a preferential tax rate of 15% (2022: 15%) during the year, subject to annual review by the relevant authority.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Profit before tax | 254,031 | 274,468 |
| Tax at the PRC Enterprise Income Tax rate of 25% | 63,508 | 68,617 |
| Tax effect of income that is not taxable | (5,668) | (10,137) |
| Tax effect of expenses that are not deductible | 19,599 | 12,389 |
| Tax effect of tax concession | (25,478) | (21,778) |
| Tax effect of super-deduction of research and development costs | (17,188) | (17,927) |
| Under-provision in prior year | 945 | 2,453 |
| Tax effect of unrecognised tax losses | 712 | 2,839 |
| Tax effect of utilisation of tax losses not previously recognised | (2,491) | — |
| Tax effect of temporary difference not recognised | 1,329 | (609) |
| PRC withholding tax | 2,411 | 3,334 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 3,067 | (1,223) |
| Income tax expense | 40,746 | 37,958 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 12. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Auditor's remuneration | | |
| – audit service | 2,618 | 1,650 |
| – non-audit service | 1,792 | 580 |
| Costs in relation to acquisition of CQV (included in administrative expenses) | 3,569 | — |
| Amortisation of intangible assets | 2,988 | — |
| Depreciation on property, plant and equipment | 58,848 | 37,359 |
| Depreciation on right-of-use assets | 2,252 | 1,668 |
| Research and development expenditures | 75,018 | 71,917 |
| Cost of inventories sold (note) | 528,035 | 455,151 |
| Allowance for inventories (included in cost of sales) | 117 | — |
| (Reversal of impairment losses)/impairment losses for trade, bills and other receivables, net | (618) | 3,505 |

Note: The following costs are included in the amounts of cost of inventories sold disclosed separately above:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Staff costs | 57,061 | 46,668 |
| Depreciation on property, plant and equipment | 25,231 | 16,325 |
| Operating lease charge | 3 | - |

## 13. EMPLOYEE BENEFITS EXPENSE

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Employee benefits expense: | | |
| Salaries, bonuses and allowances | 96,123 | 73,993 |
| Retirement benefit – defined contribution plans | 17,298 | 17,376 |
| Retirement benefit – defined benefit plans (Note 35(a)) | 1,453 | — |
| | 114,874 | 91,369 |

## 13. EMPLOYEE BENEFITS EXPENSE *(continued)*

### (a) Pensions - defined contribution plans

The Group contributes to defined contribution retirement plans which are available for eligible employees in the PRC and Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities (the "PRC Retirement Schemes"). The Group makes contributions to the PRC Retirement Schemes at the applicable rates based on the amounts stipulated by the local government organisations. Upon retirement, the local government labour and security authorities are responsible for the payment of the retirement benefits to the retired employees.

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) for employees employed under the jurisdiction of Hong Kong Employment Ordinance (Chapter 57 of the laws of Hong Kong). The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000.

During the years ended 31 December 2023 and 2022, the Group had no forfeited contributions under the PRC Retirement Scheme and MPF Scheme and which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at 31 December 2023 and 2022 under the PRC Retirement Scheme and MPF Scheme which may be used by the Group to reduce the contribution payable in future years.

## 13. EMPLOYEE BENEFITS EXPENSE *(continued)*

### (b) Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2022: three) directors of the Company whose emoluments are reflected in the analysis presented in note 14.

The emoluments of the remaining two (2022: two) individuals are set out below:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Salaries and allowances | 2,541 | 840 |
| Discretionary bonus | 547 | 314 |
| Retirement benefit scheme contributions | 59 | 173 |
| | 3,147 | 1,327 |

The emoluments fell within the following band:

| | Number of individuals | |
|---|---|---|
| | 2023 | 2022 |
| Nil to HK$1,000,000 | — | 2 |
| HK$1,000,001 to HK$1,500,000 | 1 | — |
| HK$2,000,001 to HK$2,500,000 | 1 | — |
| | 2 | 2 |

During the year, there was no arrangement under which a director of the Company waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2022: Nil).

## 14. BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

The remuneration of every director is set out below:

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries RMB'000 | Discretionary bonus RMB'000 | Estimated money value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Housing allowance RMB'000 | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000 | Total RMB'000 |
| Executive directors: | | | | | | | | | |
| Mr. SU Ertian (蘇爾田先生) (Chief executive) | – | 788 | 450 | – | 82 | – | – | – | 1,320 |
| Mr. JIN Zengqin (金增勤先生) | – | 409 | 135 | – | 80 | – | – | – | 624 |
| Mr. ZHOU Fangchao (周方超先生) | – | 612 | 317 | – | 67 | – | – | – | 996 |
| Ms. ZENG Zhu (曾珠女士) (note i) | – | 151 | 49 | – | 53 | – | – | – | 253 |
| Mr. BAI Zhihuan (白植煥先生) (note ii) | – | 432 | 170 | – | 59 | – | – | – | 661 |
| Non-executive directors: | | | | | | | | | |
| Mr. HU Yongxiang (胡永祥先生) | – | – | – | – | – | – | – | – | – |
| Independent Non-executive directors: | | | | | | | | | |
| Mr. HUI Chi Fung (許之豐先生) (note iii) | 162 | – | – | – | – | – | – | – | 162 |
| Professor HAN Gaorong (韓高榮教授) | 162 | – | – | – | – | – | – | – | 162 |
| Mr. LEUNG Kwai Wah Alex (梁貴華先生) | 162 | – | – | – | – | – | – | – | 162 |
| Total for the year ended 31 December 2023 | 486 | 2,392 | 1,121 | – | 341 | – | – | – | 4,340 |

## 14. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

### (a) Directors' emoluments *(continued)*

| | Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries RMB'000 | Discretionary bonus RMB'000 | Estimated money value of other benefits RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Remunerations paid or receivable in respect of accepting office as director RMB'000 | Housing allowance RMB'000 | Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000 | Total RMB'000 |
| Executive directors: | | | | | | | | | |
| Mr. SU Ertian (蘇爾田先生) (Chief executive) | – | 510 | 318 | – | 149 | – | – | – | 977 |
| Mr. ZHENG Shizhan (鄭世展先生) (note v) | – | 281 | – | – | 46 | – | – | – | 327 |
| Mr. JIN Zengqin (金增勤先生) | – | 409 | 127 | – | 79 | – | – | – | 615 |
| Mr. ZHOU Fangchao (周方超先生) | – | 359 | 290 | – | 130 | – | – | – | 779 |
| Ms. ZENG Zhu (曾珠女士) (note i) | – | 75 | 50 | – | 27 | – | – | – | 152 |
| Mr. BAI Zhihuan (白植煥先生) (note ii) | – | 103 | 316 | – | 26 | – | – | – | 445 |
| Non-executive directors: | | | | | | | | | |
| Mr. QIN Min (秦敏先生) (note iv) | – | – | – | – | – | – | – | – | – |
| Mr. HU Yongxiang (胡永祥先生) | – | – | – | – | – | – | – | – | – |
| Independent Non-executive directors: | | | | | | | | | |
| Mr. MAK Hing Keung, Thomas (麥興強先生) (note vi) | 104 | – | – | – | – | – | – | – | 104 |
| Mr. HUI Chi Fung (許之豐先生) (note iii) | 50 | – | – | – | – | – | – | – | 50 |
| Professor HAN Gaorong (韓高榮教授) | 155 | – | – | – | – | – | – | – | 155 |
| Mr. LEUNG Kwai Wah Alex (梁貴華先生) | 155 | – | – | – | – | – | – | – | 155 |
| Total for the year ended 31 December 2022 | 464 | 1,737 | 1,101 | – | 457 | – | – | – | 3,759 |

Neither the chief executive nor any of the directors waived any emoluments during the year (2022: Nil).

Notes: (i) Appointed on 24 June 2022
(ii) Appointed on 27 August 2022
(iii) Appointed on 5 September 2022
(iv) Resigned on 25 April 2022
(v) Resigned on 20 July 2022
(vi) Resigned on 5 September 2022

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 14. BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 15. DIVIDENDS

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| 2022 Final of Nil (2022: 2021 Final of HK3.5 cents) per ordinary share paid | – | 35,834 |

The board of directors has decided not to declare and pay any final dividend for the year ended 31 December 2023 (2022: Nil).

## 16. EARNINGS PER SHARE

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

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit for the purpose of calculating basic and diluted earnings per share | 181,578 | 223,788 |

| | 2023<br>'000 | 2022<br>'000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 1,208,799 | 1,019,270 |
| Effect of dilutive potential ordinary shares arising from convertible bonds outstanding | — | 241 |
| | 1,208,799 | 1,019,511 |

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2023 in respect of a dilution as the impact of the conversion of convertible bonds had an anti-dilutive effect on the basic earnings per share amounts presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land and buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Office equipment RMB'000 | Construction in progress RMB'000 | Leasehold improvement RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2022 | 314,285 | 89,426 | 2,995 | 10,461 | 285,703 | 11,789 | 714,659 |
| Additions | — | 11,274 | 418 | 3,986 | 182,741 | 27,126 | 225,545 |
| Disposals | — | — | (367) | — | — | — | (367) |
| Transfer | 96,741 | 46,164 | — | — | (164,410) | 21,505 | — |
| At 31 December 2022 and 1 January 2023 | 411,026 | 146,864 | 3,046 | 14,447 | 304,034 | 60,420 | 939,837 |
| Additions | — | 329 | — | 742 | 159,282 | 1,364 | 161,717 |
| Acquisition of a subsidiary | 137,714 | 75,977 | 439 | 19,723 | 9,212 | — | 243,065 |
| Transfers | — | 2,905 | — | 1,725 | (4,630) | — | — |
| Exchange differences | (77) | (44) | — | (12) | (3) | — | (136) |
| At 31 December 2023 | 548,663 | 226,031 | 3,485 | 36,625 | 467,895 | 61,784 | 1,344,483 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2022 | 77,941 | 43,729 | 2,291 | 9,184 | — | 10,318 | 143,463 |
| Charges for the year | 16,340 | 10,291 | 185 | 280 | — | 10,263 | 37,359 |
| Disposals | — | — | (349) | — | — | — | (349) |
| At 31 December 2022 and 1 January 2023 | 94,281 | 54,020 | 2,127 | 9,464 | — | 20,581 | 180,473 |
| Charges for the year | 22,015 | 18,284 | 254 | 1,832 | — | 16,463 | 58,848 |
| Exchange differences | (1) | (2) | — | (1) | — | — | (4) |
| At 31 December 2023 | 116,295 | 72,302 | 2,381 | 11,295 | — | 37,044 | 239,317 |
| **Carrying amount** | | | | | | | |
| At 31 December 2023 | 432,368 | 153,729 | 1,104 | 25,330 | 467,895 | 24,740 | 1,105,166 |
| At 31 December 2022 | 316,745 | 92,844 | 919 | 4,983 | 304,034 | 39,839 | 759,364 |

At 31 December 2023, the carrying amount of property, plant and equipment pledged as security for the Group's bank loans and other borrowings amounted to approximately RMB226,415,000 (2022: RMB123,707,000).

## 18. RIGHT-OF-USE ASSETS

| | Leased vehicles RMB'000 | Leasehold lands RMB'000 | Leased properties RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2022 | — | 64,416 | 1,821 | 66,237 |
| Additions | — | — | 413 | 413 |
| Depreciation | — | (1,402) | (266) | (1,668) |
| Termination of a lease contract | — | — | (1,728) | (1,728) |
| Exchange differences | — | — | 2 | 2 |
| At 31 December 2022 and 1 January 2023 | — | 63,014 | 242 | 63,256 |
| Additions | — | — | 4,740 | 4,740 |
| Acquisition of a subsidiary | 477 | — | 42 | 519 |
| Depreciation | (165) | (1,402) | (685) | (2,252) |
| Exchange differences | (1) | — | 3 | 2 |
| At 31 December 2023 | **311** | **61,612** | **4,342** | **66,265** |

Right-of-use assets comprised the leasehold lands in the PRC (2022: PRC), leased properties in Hong Kong, Korea and France (2022: Hong Kong and France) and leased vehicles in Korea (2022: Nil).

As at 31 December 2023, the carrying amount of right-of-use assets pledged as security for the Group's bank loans amounted to approximately RMB15,623,000 (2022: RMB16,032,000).

Lease liabilities of approximately RMB4,909,000 (2022: RMB277,000) are recognised with related right-of-use assets of approximately RMB4,653,000 (2022: RMB242,000) as at 31 December 2023. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Depreciation on right-of-use assets | **2,252** | 1,668 |
| Interest expense on lease liabilities (included in finance costs) | **108** | 20 |
| Expenses relating to short-term lease (included in selling expenses) | **3,314** | 3,620 |
| Expenses relating to leases of low value assets (included in cost of sales) | **17** | — |
| Expenses relating to leases of low value assets (included in selling expenses) | **6** | — |
| Expenses relating to leases of low value assets (included in administrative expenses) | **10** | — |

Details of total cash outflow for leases is set out in note 39(e).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 18. RIGHT-OF-USE ASSETS *(continued)*

For both years, the Group leases various vehicles, offices, warehouses and staff quarter for its operations. Lease contracts are entered into for fixed term of 12 months to 108 months (2022: 12 months to 108 months). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

## 19. INTANGIBLE ASSETS

| | Trademark RMB'000 | Customer relationship RMB'000 | Software RMB'000 | Industrial property rights RMB'000 | Development costs RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2022, 31 December 2022 and 1 January 2023 | — | — | — | — | — | — |
| Acquisition of a subsidiary | 7,029 | 489 | 29 | 2,163 | 17,092 | 26,802 |
| Exchange differences | (4) | — | — | (1) | (9) | (14) |
| At 31 December 2023 | 7,025 | 489 | 29 | 2,162 | 17,083 | 26,788 |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2022, 31 December 2022 and 1 January 2023 | — | — | — | — | — | — |
| Amortisation for the year | 233 | 11 | 9 | 232 | 2,503 | 2,988 |
| Exchange differences | 1 | — | — | 1 | 11 | 13 |
| At 31 December 2023 | 234 | 11 | 9 | 233 | 2,514 | 3,001 |
| **Carrying amount** | | | | | | |
| At 31 December 2023 | 6,791 | 478 | 20 | 1,929 | 14,569 | 23,787 |

The remaining amortisation period of the intangible assets are as follows:

| | 2023 |
|---|---|
| Trademark | 9.6 years |
| Customer relationship | 14.6 years |
| Software | 0.2 years – 3 years |
| Industrial property rights | 0.1 years to 4.1 years |
| Development cost | 0.2 years to 4.1 years |

## 20. GOODWILL

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | — | — |
| Arising on acquisition of a subsidiary (note 39(a)) | 104,229 | — |
| Exchange differences | (58) | — |
| At 31 December | 104,171 | — |
| **Carrying amount** | | |
| At 31 December | 104,171 | — |

Goodwill acquired in a business combination is allocated, at acquisition, to the CGU that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Korea Business Operation: | | |
| CQV | 104,171 | — |

In addition to goodwill, property, plant and equipment, right-of-use assets and other intangible assets that generate cash flows together with the related goodwill are also included in the respective CGU for the purpose of impairment assessment.

## 20. GOODWILL *(continued)*

The recoverable amounts of the CGU have been determined on the basis of their value in use using discounted cash flow method, which uses cash flow projections based on financial budgets approved by the directors covering a five-year period and a pre-tax discount rate of 15.7% per annum calculated by using weighted average cost of capital. The key assumptions used by management in setting the financial budgets for the initial five-year period were as follows:

Forecast sales growth rates – based on past experience adjusted for the expected growth in the pearlescent pigment market.

Operating expenses levels – based on historical experience of operating expenses, adjusted for the impact of economics of scale.

Cash flows beyond five-year period have been extrapolated using a steady 2% per annum growth rate, which is estimated by the directors of the Company based on past performance of the CGU and their expectations of market development and the rate does not exceed the average long-term growth rate for the relevant markets.

The recoverable amount calculated based on value in use exceeded carrying value by approximately RMB35,547,000. The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount of the above CGU to which goodwill is allocated. A 10% underperformance against forecast sales growth rates would reduce the headroom to nil but would not result in an impairment charge.

## 21. RESTRICTED DEPOSIT

As at 31 December 2023, the restricted deposit pledged as security for the Group's other borrowings amounted to approximately RMB2,425,000 (2022: Nil) of which approximately RMB375,000 and RMB2,050,000 was classified as current assets and non-current assets respectively.

## 22. INVESTMENTS IN SUBSIDIARIES

The amounts due from subsidiaries are unsecured, bear interest at 2% to 5% per annum and repayable on demand.

Particulars of the principal subsidiaries as at 31 December 2023 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/ principal country of operation | Authorised capital | Issued/paid up capital | Attributable effective equity interest of the Group | Principal activities |
|---|---|---|---|---|---|
| Generous Fortune Limited (盛富有限公司) | British Virgin Islands | HK$80,000,000,000 | HK$12,590,725.2 | 100% (Direct) | Investment holding |
| Global New Material (China) Limited (環球新材 (中國) 有限公司) | Hong Kong | N/A | HK$30,000 | 100% (Indirect) | Investment holding |
| Chesir Pearl (note (a)) | The PRC | RMB149,561,191 | RMB149,561,191 | 97.19% (Indirect) | Manufacturing and sales of pearlescent pigment and functional mica filler |
| 上海萬紫千紅珠光效應材料有限公司 (Shanghai Multicolor) (note (b)) | The PRC | RMB10,000,000 | RMB10,000,000 | 97.19% (Indirect) | Trading of pearlescent pigment and functional mica filler |
| Chesir Luzhai (note (b)) | The PRC | RMB104,927,076 | RMB104,927,076 | 52.23% (2022: 58.35%) (Indirect) | Manufacturing and sales of functional mica filler and related products |

## 22. INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ principal country of operation | Authorised capital | Issued/paid up capital | Attributable effective equity interest of the Group | Principal activities |
|---|---|---|---|---|---|
| Chesir International Holdings Limited | British Virgin Islands | US$50,000 | US$1 | 100% (Direct) | Investment holding |
| Star Cheer Corporation Limited | Hong Kong | N/A | HK$1 | 100% (Indirect) | Investment holding |
| CQV (note (d)) | Korea | KRW10,000,000,000 | KRW5,069,092,000 | 42.45% (11.60% Direct; 30.85% Indirect) | Manufacturing and sales of pearlescent pigment |

Note:

(a) The subsidiary is a joint stock company established under the laws of the PRC with limited liability.

(b) These subsidiaries are established under the laws of the PRC with limited liability.

(c) These subsidiaries are wholly foreign-owned enterprises established under the laws of the PRC with limited liability.

(d) The directors of the Company considered the Group's absolute size of holding in CQV and the relative size of and dispersion of the shareholdings owned by the other shareholders. After assessment, the directors of the Company concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of CQV and therefore the Group has control over CQV.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

The following table shows information on Chesir Pearl and its subsidiaries ("Chesir Pearl Group") and CQV that has non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 22. INVESTMENTS IN SUBSIDIARIES *(continued)*

| Name | Chesir Pearl Group* 2023 | Chesir Pearl Group* 2022 | CQV 2023 |
|---|---|---|---|
| Principal place of business/country of incorporation | The PRC/The PRC | | Korea/Korea |
| % of ownership interests/voting rights held by NCI | 2.81%/ 2.81% | 2.81%/ 2.81% | 57.55%/ 57.55% |
| | RMB'000 | RMB'000 | RMB'000 |
| **At 31 December:** | | | |
| Non-current assets | 931,585 | 823,822 | 383,098 |
| Current assets | 3,234,487 | 1,885,349 | 234,280 |
| Non-current liabilities | (42,610) | (133,461) | (57,505) |
| Current liabilities | (1,164,482) | (822,941) | (42,786) |
| Net assets | 2,958,980 | 1,752,769 | 517,087 |
| Accumulated NCI | 738,608 | 185,886 | 190,047 |

| Name | Chesir Pearl Group* Year ended 31 December 2023 RMB'000 | Chesir Pearl Group* Year ended 31 December 2022 RMB'000 | CQV Period from 22 August 2023 to 31 December 2023 RMB'000 |
|---|---|---|---|
| Revenue | 961,337 | 916,820 | 103,106 |
| Profit | 248,451 | 226,073 | 8,946 |
| Total comprehensive income | 248,527 | 226,073 | 5,492 |
| Profit allocated to NCI | 26,558 | 12,722 | 5,149 |
| Net cash generated from operating activities | 110,048 | 159,083 | 8,461 |
| Net cash used in investing activities | (111,008) | (330,599) | (1,175) |
| Net cash generated from/(used in) financing activities | 1,216,000 | 81,504 | (34,692) |
| Net increase/(decrease) in cash and cash equivalents | 1,215,040 | (90,012) | (27,406) |

* Chesir Pearl Group includes Chesir Luzhai, in which the Group held an effective equity interest of 52.23% (2022: 58.35%) as of 31 December 2023.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 22. INVESTMENTS IN SUBSIDIARIES *(continued)*

As at 31 December 2023, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to approximately RMB2,804,221,000 (2022: RMB1,581,804,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 23. INVENTORIES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Raw materials | 30,263 | 9,149 |
| Work in progress | 99,824 | 72,258 |
| Finished goods | 107,232 | 38,723 |
| | 237,319 | 120,130 |

## 24. TRADE AND BILLS RECEIVABLES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Trade receivables | 372,686 | 319,109 |
| Bill receivables | 4,727 | — |
| Allowance for doubtful debts | (12,100) | (10,990) |
| | 365,313 | 308,119 |

The Group generally allows a credit period from 30 to 180 days for its customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company.

## 24. TRADE AND BILLS RECEIVABLES *(continued)*

The ageing analysis of trade and bills receivables based on the invoice date (or date of revenue recognition, if earlier), and net of allowance, is as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| 0 to 90 days | 309,651 | 264,228 |
| 91 to 180 days | 55,222 | 43,180 |
| 181 to 365 days | 440 | 711 |
| | 365,313 | 308,119 |

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| RMB | 294,854 | 307,135 |
| US$ | 49,589 | 984 |
| KRW | 20,172 | — |
| JPY | 698 | — |
| Total | 365,313 | 308,119 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Deposits | **2,263** | 362 |
| Prepayments | **25,470** | 21,132 |
| Value-added tax recoverable | **11** | 1 |
| Other receivables | **1,477** | 405 |
| | **29,221** | 21,900 |
| Analysed as: | | |
| Current assets | **27,803** | 21,900 |
| Non-current assets | **1,418** | — |
| | **29,221** | 21,900 |

## 26. BANK AND CASH BALANCES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Time deposits with maturities of over three months but less than one year (note) | **—** | 160,000 |
| Cash and cash equivalents | **3,203,476** | 1,722,727 |
| | **3,203,476** | 1,882,727 |

Note: These time deposits were made for six months at interest rates of 1.82% per annum.

## 26. BANK AND CASH BALANCES *(continued)*

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| RMB | **3,130,621** | 1,881,811 |
| US$ | **46,288** | 592 |
| EUR | **178** | 208 |
| HK$ | **490** | 116 |
| KRW | **18,444** | — |
| JPY | **7,445** | — |
| Great British pounds | **10** | — |
| | **3,203,476** | 1,882,727 |

As at 31 December 2023, the bank and cash balances of the Group denominated in RMB amounted to approximately RMB3,130,621,000 (2022: RMB1,881,811,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 27. SHARE CAPITAL

| | Number of shares issued | Authorised HK$'000 | Issued and fully paid RMB'000 |
|---|---|---|---|
| Share capital of the Company in ordinary shares of HK$0.1 each | | | |
| At 1 January 2022, 31 December 2022 and 1 January 2023 | 1,191,763,586 | 8,000,000 | 99,319 |
| Share issue for acquisition of a subsidiary (note) | 47,106,546 | — | 4,382 |
| At 31 December 2023 | 1,238,870,132 | 8,000,000 | 103,701 |

Note On 22 August 2023, 47,106,546 ordinary shares of the Company of par value of HK$0.1 each were issued at a price of HK$4.24 in connection with acquisition of a subsidiary with a consideration of approximately KRW34,032,293,000 (equivalent to approximately RMB187,310,000) settled by shares of the Company of which KRW796,203,000 (equivalent to approximately RMB4,382,000) were credited to the Company's share capital and the remaining proceeds of approximately KRW33,236,090,000 (equivalent to approximately RMB182,928,000) were credited to the share premium account.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 27. SHARE CAPITAL *(continued)*

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Total debt comprises bank loans and other borrowings, convertible bonds and lease liabilities. Adjusted capital comprises all components of equity (i.e. share capital, retained earnings and other reserves etc.) except for non-controlling interests.

During 2023, the Group's strategy, which was unchanged from 2022, was to maintain the debt-to-adjusted capital ratio at a level of industry average.

The debt-to-adjusted capital ratios at 31 December 2023 and 2022 were as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Total debt | **908,041** | 497,807 |
| Less: cash and cash equivalents | **(3,203,476)** | (1,722,727) |
| Net cash | **(2,295,435)** | (1,224,920) |
| Total equity | **3,156,490** | 2,357,440 |
| Debt-to-adjusted capital ratio | **N/A** | N/A |

The externally imposed capital requirements for the Group are: (i) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (ii) to meet financial covenants attached to the interest-bearing borrowings.

The Group receives a report from the share registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There were no breaches of financial covenants of any interest-bearing borrowings for the years ended 31 December 2023 and 2022.

## 28. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | 1,112 | — |
| Right-of-use assets | 4,142 | 172 |
| Investments in subsidiaries | 385,178 | 296,393 |
| **Total non-current assets** | 390,432 | 296,565 |
| **Current assets** | | |
| Prepayments and other receivables | 768 | 261 |
| Amounts due from subsidiaries | 1,165,662 | 850,953 |
| Tax recoverable | 1,058 | — |
| Bank and cash balances | 322,985 | 300,104 |
| **Total current assets** | 1,490,473 | 1,151,318 |
| **TOTAL ASSETS** | 1,880,905 | 1,447,883 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 28. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

### (a) Statement of financial position of the Company *(continued)*

| | Note | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 27 | 103,701 | 99,319 |
| Reserves | 28(b) | 1,097,986 | 975,324 |
| **Total equity** | | 1,201,687 | 1,074,643 |
| **Non-current liabilities** | | | |
| Convertible bonds | | 576,142 | 294,217 |
| Lease liabilities | | 2,850 | — |
| **Total non-current liabilities** | | 578,992 | 294,217 |
| **Current liabilities** | | | |
| Other borrowings | | 78,061 | 67,993 |
| Derivative component of convertible bonds | | 5,706 | 5,783 |
| Lease liabilities | | 1,536 | 177 |
| Accruals and other payables | | 14,923 | 2,902 |
| Current tax liabilities | | — | 2,168 |
| **Total current liabilities** | | 100,226 | 79,023 |
| **TOTAL EQUITY AND LIABILITIES** | | 1,880,905 | 1,447,883 |

Approved by the Board of Directors on 28 March 2024 and are signed on its behalf by:

**SU Ertian**
*Director*

**ZHOU Fangchao**
*Director*

## 28. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

*(continued)*

### (b) Reserve movement of the Company

| | Share premium RMB'000 | Special reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2022 | 739,278 | 284,381 | (7,377) | 1,016,282 |
| Total comprehensive income for the year | — | — | (5,124) | (5,124) |
| Dividend paid (note 15) | (35,834) | — | — | (35,834) |
| At 31 December 2022 and 1 January 2023 | 703,444 | 284,381 | (12,501) | 975,324 |
| Total comprehensive income for the year | — | — | (60,266) | (60,266) |
| Shares issued for acquisition of a subsidiary | 182,928 | — | — | 182,928 |
| At 31 December 2023 | **886,372** | **284,381** | **(72,767)** | **1,097,986** |

## 29. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Nature and purpose of reserves

#### (i) Share premium

The share premium represents the differences between the proceed from issue of shares and the nominal amount of the shares issued by the Company.

#### (ii) Merger reserve

Merger reserve arose as a result of the group reorganisation upon incorporation of the Company on 8 June 2018. The share capital of Chesir Pearl was transferred to merger reserve and share capital reflected that of the Company.

## 29. RESERVES *(continued)*

### (b) Nature and purpose of reserves *(continued)*

#### (iii) Other reserve

Other reserve arose as a result of excess of capital contribution over the share capital of the subsidiaries and the gain/(loss) on disposal of interest in a subsidiary without loss of control.

#### (iv) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4(d) to the consolidated financial statements.

#### (v) Statutory surplus reserve

The statutory surplus reserve, which is non-distributable, is appropriated from the profit after tax of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

#### (vi) Special reserve

Special reserve represents the difference between the consideration and the share capital of a subsidiary acquired under common control pursuant to the group reorganisation.

## 30. BANK LOANS AND OTHER BORROWINGS

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Bank loans | | |
| – Secured | **174,947** | 133,440 |
| – Unsecured | **11,001** | — |
| Other borrowings | | |
| – Secured | **61,072** | — |
| – Unsecured | **79,970** | 69,873 |
| | **326,990** | 203,313 |

The bank loans and other borrowings are repayable as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Within one year | **177,314** | 2,500 |
| More than one year, but not exceeding two years | **91,314** | 130,940 |
| More than two year, but not exceeding five years | **3,300** | — |
| | **271,928** | 133,440 |
| Portion of other borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities) | **55,062** | 69,873 |
| | **326,990** | 203,313 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(232,376)** | (72,373) |
| Amount due for settlement after 12 months | **94,614** | 130,940 |

The carrying amounts of the Group's bank loans and other borrowings are denominated in the following currencies:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| RMB | **192,012** | 133,440 |
| HK$ | **71,011** | 61,064 |
| US$ | **8,959** | 8,809 |
| KRW | **55,008** | — |
| | **326,990** | 203,313 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 30. BANK LOANS AND OTHER BORROWINGS *(continued)*

The average interest rates at 31 December 2023 and 2022 were as follows:

| | 2023 | 2022 |
|---|---|---|
| Bank loans | | |
| – Secured | 6.10% per annum | 6.50% per annum |
| – Unsecured | 4.33% per annum | N/A |
| Other borrowings | | |
| – Secured | 5.01% per annum | N/A |
| – Unsecured | 3.73% per annum | 3.95% per annum |

Bank loans and other borrowings of approximately RMB326,990,000 (2022: RMB203,313,000) as at 31 December 2023 are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The Group's secured bank loans of approximately RMB174,947,000 (2022: RMB133,440,000) are secured by the Group's property, plant and equipment (note 17) in the PRC and Korea and right-of-use assets (note 18) in the PRC and also secured by land and buildings owned by a substantial shareholder (who also is an executive director of the Company) of the Company and the close family members of this substantial shareholder of the Company, the corporate guarantees from a corporate substantial shareholder of the Company, together with personal guarantees of this substantial shareholder and an executive director of the Company and the close family members of this substantial shareholder of the Company.

The Group's secured other borrowings of approximately RMB61,072,000 (2022: RMB: Nil) are secured by the Group's property, plant and equipment (note 17) in the PRC, and restricted deposit (note 21) in the PRC.

## 31. CONVERTIBLE BONDS

### 2022 Convertible bond

On 28 December 2022, the Company entered into a subscription agreement with an independent third party in relation to the issue of 3.5% coupon convertible bonds in the aggregate principal amount up to RMB500.0 million ("Convertible Bonds") in two tranches. The unlisted, guaranteed and unsecured convertible bond in the principal amount of RMB300.0 million ("Tranche A Convertible Bond") was issued by the Company on 30 December 2022. The interest will be paid in arrears annually until the settlement date.

Tranche A Convertible Bond is convertible at the option of the holder into fully paid ordinary shares with HK$0.1 each of the Company on or after the later of (i) the first day of the fortieth month from the date of issue; and (ii) the date on which the listing of, and permission to deal in, the conversion shares falling to be issued upon exercise of the conversion rights attached to Tranche A Convertible Bond having been granted by the Listing Committee of the Stock Exchange up to and including ending on the date immediately before the maturity date (i.e. 30 December 2026) at an initial conversion price of HK$7.6 per share.

If Tranche A Convertible Bond is not converted during the conversion period, the Company shall redeem Tranche A Convertible Bond by repaying to the holder of Tranche A Convertible Bond on the maturity date (the "Maturity Date") the aggregate of (i) the outstanding principal amount of RMB300,000,000; (ii) the interest accrued but unpaid up to and including the Maturity Date; and (iii) the additional amount which could make up an internal rate of return ("IRR") of 9% per annum on the aggregate principal amount of Tranche A Convertible Bond if the sum of the amounts referred in (i) and (ii) above, plus any amount already paid by the Company on such outstanding principal amount of Tranche A Convertible Bond, falls short of making up the IRR of 9% per annum on the relevant aggregate principal amount calculated from the issue date up to the Maturity Date.

Tranche A Convertible Bond is guaranteed by a substantial shareholder of the Company and a subsidiary of the Company.

The net proceeds received from the issue of Tranche A Convertible Bond have been split between the liability and derivative components and movement during the year, as follows:

| | RMB'000 |
|---|---|
| Nominal value of Tranche A Convertible Bond issued | 300,000 |
| Derivative component | (5,783) |
| Liability component at date of issue, 31 December 2022 and 1 January 2023 | 294,217 |
| Interest charged for the year | 29,312 |
| Interest paid | (10,500) |
| Liability component at 31 December 2023 | 313,029 |
| Derivative component at date of issue, 31 December 2022 and 1 January 2023 | 5,783 |
| Fair value gain for the year | (1,961) |
| Derivative component at 31 December 2023 | 3,822 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 31. CONVERTIBLE BONDS *(continued)*

### 2022 Convertible bond *(continued)*

The interest charged for the year is calculated by applying an effective interest rate of 9.96% per annum to the liability component.

The directors estimate the fair value of the liability component of Tranche A Convertible Bond at 31 December 2023 to be approximately RMB333,201,000 (2022: RMB294,217,000). This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

The derivative component is measured at its fair value at the date of issue and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

| | At 31 December 2023 | At date of issue and 31 December 2022 |
|---|---|---|
| Weighted average share price | **HK$3.95** | HK$3.96 |
| Weighted average exercise price | **HK$7.60** | HK$7.60 |
| Expected volatility | **38.13%** | 46.63% |
| Expected life | **3 years** | 4 years |
| Risk free rate | **3.07%** | 3.78% |
| Expected dividend yield | **0.35%** | 0.71% |

Information about level 3 fair value measurements

| | Valuation techniques | Significant unobservable input | Range | Effect on fair value for increase of inputs |
|---|---|---|---|---|
| Derivative component embedded in Tranche A Convertible Bond | Binomial option pricing model | Expected volatility | 38.13% (2022: 46.63%) | Increase |

The fair value of derivative component embedded in Tranche A Convertible Bond is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As at 31 December 2023, it is estimated that with all other variables held constant, an increase or decrease in the expected volatility by 10% would have decreased or increased the Group's profit by approximately RMB1,871,000 (2022: RMB1,259,000) or RMB1,982,000 (2022: RMB637,000) respectively.

## 31. CONVERTIBLE BONDS *(continued)*

### 2023 Convertible bond

On 5 November 2023, the Company entered into an agreement with an independent third party in relation to issue 9% coupon convertible bonds in the aggregate principal amount up to US$80,000,000 in two tranches. The unlisted, and unsecured convertible bonds with a nominal value of US$40,000,000 ("First Tranche Initial Bond") was issued by the Company on 8 November 2023.

First Tranche Initial Bond is convertible at the option of the holder thereof, at any time from the later of (a) the date on or after the relevant issue date of such bonds and (b) the date on which the listing of, and permission to deal in, the shares falling to be issued upon exercise of the conversion rights attached to the applicable convertible bonds having been granted by the Listing Committee of the Stock Exchange, to the close of business on the date falling seven days prior to the maturity date or, if such bond shall have been called for redemption by the Company before the maturity date, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption thereof at an initial conversion price of HK$7.6 per share.

On giving not less than 30 nor more than 60 days' notice by the Company to the bondholders, First Tranche Initial Bond may be redeemed by the Company in whole or in part, on the date specified in the option redemption notice at their optional redemption amount together with interest accrued but unpaid to such date (if any) at any time.

The net proceeds received from the issue of First Tranche Initial Bond have been split between the liability and derivative components and movement during the year, as follows:

| | RMB'000 |
|---|---|
| Nominal value of First Tranche Initial Bond issued | 284,072 |
| Derivative component | (2,847) |
| Liability component at date of issue | 281,225 |
| Transaction cost related to liability component | (22,726) |
| Interest charged for the year | 5,289 |
| Exchange differences | (675) |
| Liability component at 31 December 2023 | 263,113 |
| Derivative component at date of issue | 2,847 |
| Fair value gain for the year | (952) |
| Exchange differences | (11) |
| Derivative component at 31 December 2023 | 1,884 |

The interest charged for the year is calculated by applying an effective interest rate of 14.85% per annum to the liability component for the 1.73 months period since First Tranche Initial Bond was issued.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 31. CONVERTIBLE BONDS *(continued)*

### 2023 Convertible bond *(continued)*

The directors estimate the fair value of the liability component of First Tranche Initial Bond at 31 December 2023 to be approximately RMB263,675,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

The derivative component is measured at its fair value at the date of issue and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

| | At 31 December 2023 | At date of issue |
|---|---|---|
| Weighted average share price | HK$3.95 | HK$3.82 |
| Weighted average exercise price | HK$7.60 | HK$7.60 |
| Expected volatility | 37.26% | 36.69% |
| Expected life | 1.9 years | 2 years |
| Risk free rate | 4.43% | 4.98% |
| Expected dividend yield | 0.35% | 0.35% |

Information about level 3 fair value measurements

| | Valuation techniques | Significant unobservable input | Range | Effect on fair value for increase of inputs |
|---|---|---|---|---|
| Derivative component embedded in First Tranche Initial Bond | Binomial option pricing model | Expected volatility | 37.26% | Increase |

The fair value of derivative component embedded in First Tranche Initial Bond is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As at 31 December 2023, it is estimated that with all other variables held constant, an increase or decrease in the expected volatility by 10% would have decreased or increased the Group's profit by approximately RMB800,000 or RMB290,000 respectively.

## 32. LEASE LIABILITIES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2023 RMB'000** | **2022 RMB'000** | **2023 RMB'000** | **2022 RMB'000** |
| Within one year | **2,104** | 220 | **1,863** | 211 |
| More than one year, but not exceeding two years | **1,943** | 42 | **1,805** | 38 |
| More than two years, but not more than five years | **1,271** | 32 | **1,241** | 28 |
| | **5,318** | 294 | **4,909** | 277 |
| Less: Future finance charges | **(409)** | (17) | **N/A** | N/A |
| Present value of lease obligations | **4,909** | 277 | **4,909** | 277 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | **(1,863)** | (211) |
| Amount due for settlement after 12 months | | | **3,046** | 66 |

The incremental borrowing rates applied to lease liabilities range from 2.04% to 9.13% (2022: from 3.05% to 9.13%).

The carrying amounts of the Group's lease liabilities are denominated in the following currencies:

| | **2023 RMB'000** | **2022 RMB'000** |
|---|---|---|
| HK$ | **4,386** | 177 |
| KRW | **453** | — |
| EUR | **70** | 100 |
| | **4,909** | 277 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 33. DEFERRED REVENUE

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Government grants | 10,933 | 3,903 |

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Analysed as: | | |
| Current liabilities | 4,614 | 1,448 |
| Non-current liabilities | 6,319 | 2,455 |
| | 10,933 | 3,903 |

The deferred revenue arises in respect of the Group's government grants.

The deferred revenue arises as a result of the benefits received from government grants received during the year ended 31 December 2014, 2015, 2016, 2018 and 2020 to 2023.

## 34. DEFERRED TAX

The following are the deferred tax liabilities and assets recognised by the Group.

### Deferred tax liabilities

| | Accelerated tax depreciation RMB'000 | Withholding tax RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2022 | — | 1,369 | 1,369 |
| Charge to profit or loss for the year | — | 3,334 | 3,334 |
| At 31 December 2022 and 1 January 2023 | — | 4,703 | 4,703 |
| Acquisition of a subsidiary (note 39(a)) | 14,664 | — | 14,664 |
| Charge/(credit) to profit or loss for the year | (500) | 2,411 | 1,911 |
| Amount paid during the year | — | (3,287) | (3,287) |
| Exchange differences | (10) | — | (10) |
| At 31 December 2023 | 14,154 | 3,827 | 17,981 |

## 34. DEFERRED TAX *(continued)*

### Deferred tax assets

| | Retirement benefit obligations RMB'000 | Deferred revenue RMB'000 | Allowance for inventories RMB'000 | Others RMB'000 | Decelerated tax depreciation RMB'000 | Doubtful debts RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2022, 31 December 2022 and 1 January 2023 | — | — | — | — | — | 1,190 | 1,190 |
| Acquisition of a subsidiary (note 39(a)) | (1,142) | 1,550 | 8,490 | 700 | 311 | 244 | 10,153 |
| (Charge)/credit to profit or loss for the year | 966 | (524) | (194) | 281 | (8) | (25) | 496 |
| Exchange differences | 6 | (2) | (7) | — | (1) | — | (4) |
| At 31 December 2023 | (170) | 1,024 | 8,289 | 981 | 302 | 1,409 | 11,835 |

At the end of the reporting period the Group has unused tax losses of approximately RMB48,122,000 (2022: RMB32,009,000) available for offset against future profits. No deferred tax assets have been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB744,000 (2022: RMB744,000), RMB706,000 (2022: RMB706,000), RMB1,063,000 (2022: RMB1,063,000), and RMB 2,314,000 (2022: RMB2,488,000) and RMB2,847,000 (2022: Nil) that will expire in 2024, 2025, 2026, 2027 and 2028 respectively. Other tax losses may be carried forward indefinitely.

## 35. RETIREMENT BENEFIT OBLIGATIONS

### (a) Defined benefit plan

The Group makes contributions to defined benefit retirement plans registered under the Employee Retirement Benefit Security Act ("ERBSA"), which cover of the employees under CQV. The plans are administered by trustees, the majority of which are independent, with their assets held separately from those of the Group. The trustees are required by the Trust Deed to act in the best interest of the plan participants and are responsible for setting investment policies of the plans.

Under the plans, a retired employee is entitled to pension payment equal to final average salary (averaged over three months) for each year of service that the employee provided.

The plans are funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuations of the plans were at 31 December 2023 and were prepared by qualified staff of GIA Consulting for Insurance Actuary Services Co. Ltd., using the projected unit credit method.

The plans expose the Group to actuarial risks, such as interest rate risk. Since the retirement plan has similar risks and features, information about the plan is aggregated and disclosed below.

The amount of retirement benefit obligations recognised in the consolidated statement of financial position is as follows:

| | 2023<br>RMB'000 |
|---|---|
| Present value of defined benefit obligation | 51,150 |
| Fair value of plan assets | (56,396) |
| | (5,246) |

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

## 35. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

### (a) Defined benefit plan *(continued)*

| | Present value of defined benefit obligation RMB'000 | Fair value of plan assets RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2022, 31 December 2022 and 1 January 2023 | — | — | — |
| Acquisition of a subsidiary | 45,004 | (54,065) | (9,061) |
| Amounts recognised in profit or loss: | | | |
| Current service cost | 1,728 | 142 | 1,870 |
| Interest expense/(income) | 543 | (960) | (417) |
| Remeasurements recognised in other comprehensive income: | | | |
| Return on plan assets (excluding interest) | 3,146 | 55 | 3,201 |
| Actuarial losses arising from changes in financial assumptions | 1,724 | — | 1,724 |
| Contributions to the plan: | | | |
| Employer | — | (1,971) | (1,971) |
| Payments from the plan | (1,000) | 383 | (617) |
| Exchange differences | 5 | 20 | 25 |
| At 31 December 2023 | 51,150 | (56,396) | (5,246) |

The maximum economic benefit available from the net defined benefit asset is determined based on reductions in future contributions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 35. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

### (a) Defined benefit plan *(continued)*

The fair value of the plan assets at the end of the reporting period consists of bank savings.

The principal actuarial assumptions adopted by the Group as at 31 December 2023 (expressed as weighted average) are as follows:

| | 2023 |
|---|---|
| Discount rate | 4.413% |
| Salary growth rate | 4.170% |

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

Through its defined benefit pension plans, the Group does not expose to any risk since the Group can choose products that can earn confirmed interest and guarantee the repayment of principal and interest.

## 35. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

### (a) Defined benefit plan *(continued)*

The Group's sensitivity analysis for each significant actuarial assumption as of the end of the reporting period based on reasonably possible changes of the relevant actuarial assumption is as follows:

| | Increase/ decrease in rate | Impact on defined benefit obligation 2023 RMB'000 |
|---|---|---|
| Discount rate | 1% | (4.54%)/5.09% |
| Salary growth rate | 1% | 5.06%/(4.60%) |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The Group finances the funding requirements of the pension plan by choosing products that can earn determined interest and security insurance products to generate operating income and does not have any funding arrangements and funding policy that will affect future contributions.

The expected contributions to the pension plan for the year ending 31 December 2024 is approximately RMB5,912,000.

The weighted average duration of the Group's defined benefit obligation is approximately 7.12 years. The maturity analysis of the Group's undiscounted benefit payments is as follows:

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2023** | | | | | |
| Pension payments | 6,615 | 2,857 | 13,237 | 48,202 | 70,911 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 35. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

### (b) Obligation to pay long service payment ("LSP") under Hong Kong Employment Ordinance (Chapter 57)

Hong Kong employees that have been employed continuously for at least five years are entitled to long service payments in accordance with the Hong Kong Employment Ordinance under certain circumstances. These circumstances include where an employee is dismissed for reasons other than serious misconduct or redundancy, that employee resigns at the age of 65 or above, or the employment contract is of fixed term and expires without renewal. The amount of LSP payable is determined with reference to the employee's final salary (capped at HK$22,500) and the years of service, reduced by the amount of any accrued benefits derived from the Group's contributions to MPF scheme (see Note 13(a)), with an overall cap of $390,000 per employee. Currently, the group does not have any separate funding arrangement in place to meet its LSP obligation.

In June 2022, the Government gazetted the Amendment Ordinance, which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset the LSP. The Abolition will officially take effect on the Transition Date (i.e., 1 May 2025). Separately, the Government of the HKSAR is also expected to introduce a subsidy scheme to assist employers for a period of 25 years after the Transition Date on the LSP payable by employers up to a certain amount per employee per year.

Under the Amendment Ordinance, the Group's mandatory MPF contributions, plus/minus any positive/negative returns, after the transition date can continue to be applied to offset the pre-transition date LSP obligation but are not eligible to offset the post-transition date LSP obligation. Furthermore, the LSP obligation before the transition date will be grandfathered and calculated based on the last monthly wages immediately preceding the transition date and the years of service up to that date.

The Group has determined that the Amendment Ordinance primarily impacts the Group's LSP liability with respect to Hong Kong employees that participate in MPF Scheme and the impact on the consolidated financial statement is immaterial.

## 36. TRADE PAYABLES

The ageing analysis of trade payables based on the date of receipt of goods and invoices, is as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| 0 to 90 days | 32,707 | 22,509 |
| 91 to 180 days | 205 | 573 |
| 181 to 365 days | 85 | 104 |
| Over 365 days | 260 | 365 |
| | 33,257 | 23,551 |

The carrying amounts of the Group's trade payables are denominated in the following currencies:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| RMB | 22,361 | 21,152 |
| US$ | 5,946 | 2,399 |
| EUR | 2,638 | — |
| KRW | 2,312 | — |
| | 33,257 | 23,551 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 37. ACCRUALS AND OTHER PAYABLES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Accruals | 36,545 | 42,002 |
| Construction fee payables | 8,000 | 7,163 |
| Other payables | 40,743 | 25,013 |
| | 85,288 | 74,178 |
| Analysed as: | | |
| Current liabilities | 84,820 | 74,178 |
| Non-current liabilities | 468 | — |
| | 85,288 | 74,178 |

## 38. CONTRACT LIABILITIES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Deposit received in advance | 184 | 13 |

Movements in contract liabilities:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| At 1 January | 13 | 13 |
| Acquisition of a subsidiary | 511 | — |
| Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the date of acquisition of a subsidiary | (339) | — |
| Exchange differences | (1) | — |
| At 31 December | 184 | 13 |

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Acquisition of subsidiaries

On 22 August 2023, the Group acquired 42.45% of the issued share capital of CQV for a total consideration of approximately KRW59,032,294,000 (equivalent to approximately RMB465,700,000). CQV is engaged in the manufacturing and sales of pearlescent pigment in Korea. The acquisition is for the purpose of expanding the Group's international business presence.

The fair value of the identifiable assets and liabilities of CQV acquired as at the date of acquisition are as follows:

| | CQV<br>RMB'000 |
|---|---|
| Net assets acquired: | |
| Property, plant and equipment | 243,065 |
| Right-of-use assets | 519 |
| Intangible assets | 26,802 |
| Defined benefit assets, net | 9,061 |
| Deferred tax assets | 10,153 |
| Inventories | 120,073 |
| Trade and bills receivables | 59,616 |
| Allowance for doubtful debts | (1,779) |
| Other receivables | 4,023 |
| Deposits and prepayments | 1,490 |
| Bank and cash balances | 75,112 |
| Lease liabilities | (507) |
| Borrowings | (89,714) |
| Deferred revenue | (9,069) |
| Trade payables | (7,281) |
| Deferred tax liabilities | (14,664) |
| Accruals and other payables | (18,737) |
| Contract liabilities | (511) |
| Current tax liabilities | (88) |
| | 407,564 |
| Non-controlling interests | (186,886) |
| Goodwill | 104,229 |
| | 324,907 |
| Satisfied by: | |
| Cash | 137,597 |
| Issue of ordinary shares of the Company | 187,310 |
| | 324,907 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | 137,597 |
| Cash and cash equivalents acquired | (75,112) |
| | 62,485 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

### (a) Acquisition of subsidiaries *(continued)*

The fair value of the trade, bills and other receivables acquired is approximately RMB61,859,000. The gross amount due under the contracts is approximately RMB63,638,000, of which approximately RMB1,779,000 is expected to be uncollectible.

Acquisition-related costs of approximately RMB3,569,000 have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the year ended 31 December 2023.

The fair value of the 47,106,546 ordinary shares of the Company issued as part of the consideration paid was determined on the basis of the closing market price of the Company's ordinary shares on the acquisition date.

The fair value of the non-controlling interest in CQV, a company listed on the KOSDAQ of The Korea Exchange, was determined on the basis of the closing market price of CQV's ordinary shares on the acquisition date.

The goodwill arising on the acquisition of CQV is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

CQV contributed approximately RMB103,106,000 to the Group's revenue for the year for the period between the date of acquisition and the end of the reporting period. CQV contributed approximately RMB8,946,000 to the Group's profit for the year for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2023, total Group revenue for the year would have been approximately RMB1,240,690,000 and profit for the year would have been approximately RMB224,465,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2023, nor is intended to be a projection of future results.

### (b) Change of interest in a subsidiary without loss of control

#### (i) Acquisition of 7.77% effective equity interest in Chesir Luzhai on 14 September 2023

During the year, the Group acquired 7.77% effective equity interest in Chesir Luzhai at a cash consideration of RMB30,000,000. The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

| | RMB'000 |
|---|---|
| Carrying amount of non-controlling interests acquired | **35,108** |
| Consideration paid to non-controlling interests | **(30,000)** |
| Gain on acquisition recognised directly in equity | **5,108** |

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

### (b) Change of interest in a subsidiary without loss of control *(continued)*

#### (ii) Acquisition of 31.07% effective equity interest in Chesir Luzhai on 17 November 2023

During the year, the Group acquired 31.07% effective equity interest in Chesir Luzhai at a cash consideration of approximately RMB150,184,000. The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

| | RMB'000 |
|---|---|
| Carrying amount of non-controlling interests acquired | 144,353 |
| Consideration paid to non-controlling interests | (150,184) |
| Loss on acquisition recognised directly in equity | (5,831) |

#### (iii) Disposal of 31.91% effective equity interest in Chesir Luzhai on 22 November 2023

During the year, the Group disposed of 31.91% effective equity interest in Chesir Luzhai at a cash consideration of RMB137,900,000. The effect of the disposal on the equity attributable to the owners of the Company is as follows:

| | RMB'000 |
|---|---|
| Carrying amount of non-controlling interests disposed | (148,611) |
| Consideration received from non-controlling interests | 137,900 |
| Loss on disposal recognised directly in equity | (10,711) |

#### (iv) Deemed disposal of 13.05% effective equity interest in Chesir Luzhai on 12 December 2023

During the year, an investor has injected RMB1,000,000,000 to acquire 13.05% effective equity interest of Chesir Luzhai. The effect of the deemed disposal on the equity attributable to the owners of the Company is as follows:

| | RMB'000 |
|---|---|
| Carrying amount of non-controlling interests deemed disposed | (195,544) |
| Proceeds received from non-controlling interests | 1,000,000 |
| | 804,456 |
| Gain on deemed disposal attribute to the existing non-controlling interests | (361,468) |
| Gain on deemed disposal recognised directly in equity | 442,988 |

### (c) Major non-cash transaction

Additions to right-of-use assets during the year of approximately RMB4,740,000 (2022: RMB413,000) were financed by lease liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

### (d) Reconciliation of liabilities arising from financing activities

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

| | 1 January 2023 RMB'000 | Entering into new lease RMB'000 | Cash flows RMB'000 | Interest expenses/ lease charges RMB'000 | Acquisition of a subsidiary RMB'000 | Recognition of derivative component of convertible bonds RMB'000 | Exchange differences RMB'000 | 31 December 2023 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Bank loans and other borrowings (note 30) | 203,313 | — | 33,147 | — | 89,714 | — | 816 | 326,990 |
| Convertible bonds (note 31) | 294,217 | — | 250,846 | 34,601 | — | (2,847) | (675) | 576,142 |
| Lease liabilities (note 32) | 277 | 4,585 | (572) | 108 | 507 | — | 4 | 4,909 |
| | 497,807 | 4,585 | 283,421 | 34,709 | 90,221 | (2,847) | 145 | 908,041 |

| | 1 January 2022 RMB'000 | Entering into new lease RMB'000 | Cash flows RMB'000 | Interest expenses/ lease charges RMB'000 | Termination RMB'000 | Recognition of derivative component of convertible bonds RMB'000 | Exchange differences RMB'000 | 31 December 2022 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Bank loans and other borrowings (note 30) | 157,889 | — | 41,995 | — | — | — | 3,429 | 203,313 |
| Convertible bond (note 31) | — | — | 300,000 | — | — | (5,783) | — | 294,217 |
| Lease liabilities (note 32) | 2,030 | 382 | (253) | 20 | (1,904) | — | 2 | 277 |
| | 159,919 | 382 | 341,742 | 20 | (1,904) | (5,783) | 3,431 | 497,807 |

## 39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

### (e) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Within operating cash flows | 3,455 | 3,640 |
| Within financing cash flows | 464 | 233 |
| | 3,919 | 3,873 |

The above amounts related to the lease rental paid during the years ended 31 December 2023 and 2022.

## 40. CONTINGENT LIABILITIES

CQV is a defendant in a lawsuit for injunction of patent infringement brought during 2022 claiming approximately RMB1,100,000. The Group intends to contest the claim, and while the final outcome of the proceedings is uncertain, it is the directors' opinion that the ultimate liability, if any, will not have a material impact on the Group's financial position.

## 41. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred and provided for are as follows:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Property, plant and equipment | 275,058 | 441,876 |

## 42. LEASE COMMITMENTS

### The Group as lessee

The Group regularly entered into short-term leases for office, office equipment and staff quarter. As at 31 December 2023, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 18.

# 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 years, as extracted from the published audited financial statements, is set forth below.

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2023<br>RMB'000 | 2022<br>RMB'000 | 2021<br>RMB'000 | 2020<br>RMB'000 | 2019<br>RMB'000 |
| Revenue | 1,064,055 | 916,820 | 669,727 | 569,113 | 440,583 |
| Cost of goods sold | (528,035) | (455,151) | (329,661) | (280,046) | (218,222) |
| Sales related tax and auxiliary charges | (7,691) | (6,334) | (5,443) | (5,002) | (4,084) |
| Gross profit | 528,329 | 455,335 | 334,623 | 284,065 | 218,277 |
| Profit before tax | 254,031 | 274,468 | 191,107 | 177,821 | 125,301 |
| Income tax expense | (40,746) | (37,958) | (21,991) | (24,960) | (17,968) |
| Profit for the year | 213,285 | 236,510 | 169,116 | 152,861 | 107,333 |
| **Profit attributable to:** | | | | | |
| Owners of the Company | 181,578 | 223,788 | 162,026 | 148,172 | 102,806 |
| Non-controlling interests | 31,707 | 12,722 | 7,090 | 4,689 | 4,527 |
| | 213,285 | 236,510 | 169,116 | 152,861 | 107,333 |

## ASSETS AND LIABILITIES

| | As of 31 December | | | | |
|---|---|---|---|---|---|
| | 2023<br>RMB'000 | 2022<br>RMB'000 | 2021<br>RMB'000 | 2020<br>RMB'000 | 2019<br>RMB'000 |
| Total assets | 5,155,282 | 3,156,870 | 2,604,373 | 1,594,304 | 1,177,741 |
| Total liabilities | 1,070,137 | 613,544 | 261,720 | 246,991 | 304,148 |
| | 4,085,145 | 2,543,326 | 2,342,653 | 1,347,313 | 873,593 |
| Equity: | | | | | |
| Equity attributable to owners of the Company | 3,156,490 | 2,357,440 | 2,169,489 | 1,181,239 | 712,208 |
| Non-controlling interests | 928,655 | 185,886 | 173,164 | 166,074 | 161,385 |
| | 4,085,145 | 2,543,326 | 2,342,653 | 1,347,313 | 873,593 |