Annual Report 2022

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

(incorporated in the Cayman Islands with limited liability)

Stock Code: 580

CONTENTS

CORPORATE INFORMATION

Executive Directors
Mr. Xiang Jie *(chairman of the board (the "**Board**") of directors (the "**Director(s)**"))*
Mr. Gong Renyuan *(chief executive officer)*
Mr. Yue Zhoumin

Non-executive Director
Ms. Zhang Ling

Independent Non-executive Directors
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu

Authorised Representatives
Mr. Yue Zhoumin
Ms. He Lina

Audit Committee
Mr. Chen Shimin *(chairman of the audit committee)*
Mr. Zhang Xuejun
Mr. Leung Ming Shu

Remuneration Committee
Mr. Leung Ming Shu *(chairman of the remuneration committee)*
Mr. Chen Shimin
Mr. Zhang Xuejun

Nomination Committee
Mr. Zhang Xuejun *(chairman of the nomination committee)*
Mr. Gong Renyuan
Mr. Chen Shimin

Strategy and Sustainability Committee (formerly known as Investment Committee)
Mr. Xiang Jie *(chairman of the strategy and sustainability committee)*
Ms. Zhang Ling
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu

Company Secretary
Ms. He Lina

Legal Advisers
Loeb & Loeb LLP

External Auditor
Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor

Registered Office
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Principal Place of Business in Hong Kong
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Principal Share Registrar and Transfer Office
Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
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Gardenia Court, Camana Bay
Grand Cayman KY1-1100
Cayman Islands

Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
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16 Harcourt Road
Hong Kong

Principal Banks
Bank of China Limited, Jiashan branch
China Construction Bank Corporation, Jiashan branch and Wuxi Xishan branch

Listing Information
Place of listing: Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")
Stock code: 580

Website
www.sunking-tech.com

Dear shareholders,

In 2022, the revenue of the Group amounted to approximately RMB917.8 million, representing a slight decrease of approximately 1.4% as compared to 2021. In which, the revenue of the Group in the power transmission and distribution sector decreased significantly by approximately 40% due to the impact of the sluggish investment scale in the high voltage direct current ("**DC**") transmission sector such as ultra-high voltage DC ("**UHVDC**") transmission and flexible DC transmission. This was also an important reason for the decline in the Group's revenue. The Group is in a booming cycle in other areas of the new energy industry chain, such as: photovoltaic, wind power, energy storage, electric vehicle, metallurgy, industrial control and so on. The Group has achieved different levels of revenue growth in the aforementioned markets. Among them, revenue from the electrified transportation sector grew by approximately 119%, while revenue from the industrial and other sector grew by approximately 43%.

The Group has also achieved excellent results in a number of new products. For example, i20 series 1200V insulated gate bipolar transistor (**"IGBT(s)**") chips and ED type IGBT modules of the self-developed IGBTs have been recognised by customers with orders received in electric vehicle, photovoltaic and energy storage sectors, and the research and development ("**R&D**") of i20 series 1700V IGBT chips and ST type IGBT modules has been completed. The integrated busbars have already obtained orders from various customers and generated more than RMB ten million in revenue; a series of products for wind power online monitoring, including wind turbines, wind turbine blades and towers, submarine cables and other onshore and offshore wind power segments, have been launched after R&D; DC support capacitors for flexible DC transmission have been successfully applied in batch in a number of projects; and number of projects and orders for marine solid-state DC circuit breakers have been signed. Some of these products have also made major contribution to revenue growth.

The Group focuses on providing core components and innovative technologies for the new energy industry chain. The Group's key markets of DC power transmission, electric vehicles, new energy generation, energy storage and industrial control are key areas for building a new energy system and realising the "dual carbon" strategy. In 2023, positive development trends are shown in these areas, providing favourable external environment for the Group's business development: the new energy power generation and consumption sectors continue to enjoy rapid growth. The high voltage DC transmission market is expected to improve significantly. Not only the Jinshang – Hubei ±800KV UHVDC transmission project has commenced construction, the Longdong – Shandong, the Ningxia – Hunan, the Southeast Tibet - Greater Bay Area UHVDC transmission projects and a number of other projects are expected to be launched within the year. In addition, a number of flexible DC transmission projects, including the Yangjiang Qingzhou III and Qingzhou IV offshore wind farm flexible DC transmission project and the Germany BorWin6 offshore wind power flexible DC transmission project, are also expected to be launched within the year. The growth in the number of high voltage DC transmission projects and the scale of investment will lead to a significant increase in the Group's revenue in this sector.

The Group also places great emphasis on technological R&D of clean energy and innovation to create internal drivers for sustainable development. In particular, the Group's key new business, the self-developed IGBT project. In 2023, the Group will focus on the market development of i20 series 1700V IGBT chips and ST type IGBT modules, and endeavour to launch new products during the year: the HEEV type and EVD type automotive grade MOSFET silicon carbide modules, so as to increase its market presence for automotive grade products. In addition, the Group will strive to complete the construction of the second encapsulation and testing production line as soon as possible and achieve mass production within the year.

It is stated in the 2023 Report on the Work of the Government that the government will promote efficient use and technology R&D of clean energy, accelerate the construction of a new energy system and increase the proportion of renewable energy. The Group will always insist on "technological innovation as the primary driving force for corporate development" and focus on leading domestic and international power and electronics technologies to become a world-class innovative enterprise.

ACKNOWLEDGEMENTS

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

Xiang Jie
Chairman

Hong Kong, 22 March 2023

BUSINESS REVIEW

1. Domestic and overseas market performance

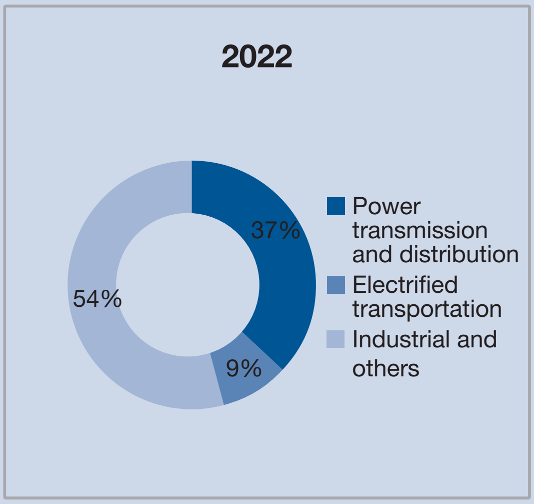
	For the year ended 31 December			
	2022		2021	
	Revenue (RMB'000)	**Gross profit margin**	Revenue (RMB'000)	Gross profit margin
Domestic market	**880,293**	**27%**	910,550	30%
Overseas market	**37,487**	**53%**	20,442	58%
Total	**917,780**	**Average 28%**	930,992	Average 30%

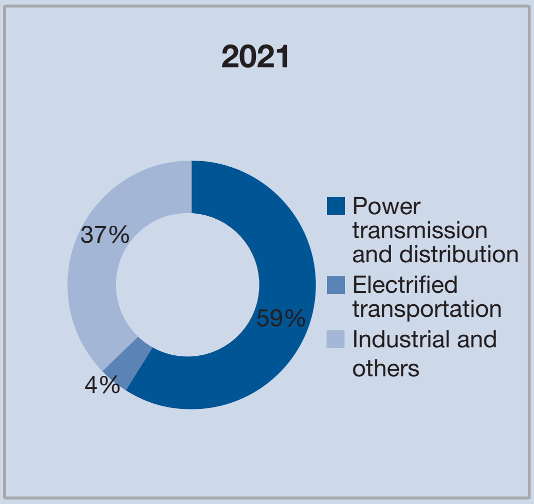
2. Domestic market performance

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

	For the year ended 31 December			
	2022		2021	
Applied sectors	**Revenue (RMB'000)**	**Gross profit margin**	Revenue (RMB'000)	Gross profit margin
Power transmission and distribution	**322,671**	**41%**	539,292	36%
Electrified transportation	**80,721**	**15%**	36,840	23%
Industrial and others	**476,901**	**20%**	334,418	21%
Total	**880,293**	**Average 27%**	910,550	Average 30%

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





(a) Power transmission and distribution sector

The Group provides products such as anode saturation reactors, power capacitors and DC support capacitors for flexible DC transmission to the high-voltage DC transmission sector. In addition, the Group provides products such as intelligent power grid online monitoring systems and power capacitors to other power transmission and distribution sectors. The Group's performance in the power transmission and distribution sector is as follows:

	For the year ended 31 December		
	2022	2021	
	Revenue (RMB'000)	Revenue (RMB'000)	Change
Power transmission and distribution sector	**322,671**	539,292	-40%
UHVDC transmission	**128,852**	165,100	-22%
Flexible DC transmission	**49,698**	246,569	-80%
Other power transmission and distribution	**144,121**	127,623	13%

UHVDC transmission and flexible DC transmission

The "14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Outline of Long-term Goals for 2035", the ""Carbon Peak and Carbon Neutrality" Action Plan of the State Grid Corporation", the ""14th Five-Year Plan" of Southern Grid for Power Grid Development" and other policies and plannings all purposed the enhancement of construction and efficiency of clean energy delivery channels such as ultra-high voltage transmission projects.

In 2022, investment levels in UHVDC transmission and flexible DC transmission sector were relatively low and the construction scale of such were relatively small, in which only the Baihetan – Zhejiang ±800KV UHVDC transmission project, the Gezhouba – Nanqiao DC transmission project (hybrid DC transformation), the 220KV Zhongbu – Tingshan flexible low-frequency transmission demonstration project were under construction, in particular, no large-scale projects have been initiated in the flexible DC transmission sector, the Group's revenue from this sub-sector was lower than 2021.

In 2023, the Jinshang – Hubei ±800KV UHVDC transmission project has commenced construction. In addition, the Longdong – Shandong and the Ningxia – Hunan ±800KV UHVDC transmission projects, the Southeast Tibet – Greater Bay Area DC project (hybrid DC) and other projects are expected to commence construction.

Other power transmission and distribution

In 2022, due to the increase in delivery amount of power capacitors, the Group's revenue from this sub-sector grew as compared to 2021.

(b) Electrified transportation sector

The Group provides a wide range of power electronic components to the manufacturers of rail transit vehicle equipment; products such as power quality control devices and automatic cross-phase intelligent switches for electrified railways to the manufacturers of rail transportation power supply system; and products such as self-developed IGBTs and laminated busbars to the subsector of electric vehicles. In addition, the Group provides products such as solid-state alternating current ("**AC**")/DC switches and impedance measuring devices to other transportation sectors such as marine and aviation. The Group's performance in the electrified transportation sector is as follows:

	For the year ended 31 December		
	2022	2021	
	Revenue (RMB'000)	Revenue (RMB'000)	Change
Electrified transportation sector	**80,721**	36,840	119%
Rail transportation	**45,913**	29,700	55%
Electric vehicles	**26,433**	6,093	334%
Other transportation	**8,375**	1,047	700%

Rail transportation

In 2022, the Group's revenue from this sub-sector grew as compared to 2021 due to the increase in procurement of rail transit vehicles, particularly rail freight electric locomotives, by China State Railway Group Co., Ltd..

Electric vehicles

In 2022, the Group's revenue from this sub-sector grew significantly as compared to 2021 due to the delivery in batches of the self-developed i20 series 1200V IGBT chips and ED type IGBT modules.

Other transportation

In 2022, the Group's revenue from this sub-sector grew significantly as compared to 2021 due to the increase in sales in the electrified vessel sector.

(c) Industrial and others

The Group supplies products including self-developed IGBTs, laminated busbars, power quality control devices and power capacitors to the industrial sector (manufacturers of electrical control and energy saving equipment and manufacturers of new energy power generation equipment) and the scientific R&D sector. The performance of the Group in the industrial and others sector is as follows:

	For the year ended 31 December		
	2022 Revenue (RMB'000)	2021 Revenue (RMB'000)	Change
Industrial and others	**476,901**	334,418	43%
Electrical equipment	**341,682**	218,200	57%
New energy power generation	**122,722**	106,481	15%
Scientific research institutes and others	**12,497**	9,737	28%

In 2022, the Group's revenue from the industrial and other sectors grew as compared to 2021 due to electrical equipment and new energy power generation sectors showing a good market momentum.

3. Overseas market performance

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

In 2022, the Group's products sold in overseas markets included laminated busbars, solid-state AC/DC switches, pulsed power supplies and impedance measurement.

	For the year ended 31 December		
	2022 Revenue (RMB'000)	2021 Revenue (RMB'000)	Change
Overseas market	**37,487**	20,442	83%
Products of domestic subsidiaries	**3,634**	4,542	-20%
Products of overseas subsidiaries	**33,853**	15,900	113%

In 2022, the Group's revenue from the overseas market grew as compared to 2021 primarily due to the increase in sales of marine solid-state DC circuit breakers.

4. Update on R&D and new business

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

(a) Power semiconductor and its supporting devices

IGBTs

In 2022, the Group's self-developed i20 series 1200V IGBT chips, d20 diode chips and ED type IGBT modules were successfully tested and certified by various customers and have received volume orders.

In January 2023, the Group officially launched the i20 series 1700V IGBT chips, d20 diode chips and ST type IGBT modules. In addition, the R&D of the Group's two automotive grade silicon carbide modules, HEEV type and EVD type silicon carbide modules, are progressing well.

Power electronic capacitors

The Group's DC support capacitors for flexible DC transmission became the first domestic product to be used in bulk in the 220KV Zhongbu – Tingshan flexible low-frequency transmission demonstration project, and it has been successfully used in bulk subsequently in the Suizhou Guangshui 100% new energy power system demonstration project.

Integrated busbars

The new product, integrated busbars launched by the Group are mainly used in battery packs in electric vehicles and energy storage sectors, and contracts have already been signed with various customers.

(b) Cutting-edge power electronic technology products

Solid-state AC/DC switches

The marine solid-state DC circuit breakers of the Group have been certified by both China Classification Society (CCS) and DNV. In addition, the Group has signed orders with seven European and domestic customers for 12 projects, involving a total of 46 marine solid-state DC circuit breakers.

The Group's ground automatic cross-phase intelligent switches for electrified railways (solid-state switch technology) has passed all tests and project evaluation of a related technology demonstration project of a railway bureau in the PRC.

Pulse power

The Group received another order from a company in the United States for a controlled fusion project.

FINANCIAL REVIEW

Revenue

The revenue slightly decreased by approximately 1.4% from approximately RMB931.0 million for the year ended 31 December 2021 to approximately RMB917.8 million for the year ended 31 December 2022, primarily due to the decrease in revenue from the flexible DC transmission and distribution sector.

Cost of sales

The cost of sales slightly increased by approximately 1.4% from approximately RMB647.2 million for the year ended 31 December 2021 to approximately RMB656.4 million for the year ended 31 December 2022, primarily due to the increase in price of certain raw materials.

Gross profit and gross profit margin

The gross profit decreased by approximately 7.9% from approximately RMB283.8 million for the year ended 31 December 2021 to approximately RMB261.4 million for the year ended 31 December 2022, primarily due to the decrease in revenue and the increase in price of certain raw materials.

The gross profit margin decreased from approximately 30.5% for the year ended 31 December 2021 to approximately 28.5% for the year ended 31 December 2022, primarily due to the decrease in proportion of high gross profit margin products and the increase in price of certain raw materials.

Other income and gains

The other income and gains significantly increased by approximately 73.4% from approximately RMB40.2 million for the year ended 31 December 2021 to approximately RMB69.7 million for the year ended 31 December 2022, primarily due to the increase in revenue from forward foreign exchange contracts.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 7.0% from approximately RMB64.7 million for the year ended 31 December 2021 to approximately RMB69.2 million for the year ended 31 December 2022, primarily due to the expansion of market of self-produced IGBT business.

Administrative expenses

The administrative expenses increased by approximately 3.6% from approximately RMB112.4 million for the year ended 31 December 2021 to approximately RMB116.4 million for the year ended 31 December 2022, primarily due to the expansion of market of self-produced IGBT business.

R&D costs

The R&D costs increased by approximately 7.1% from approximately RMB84.1 million for the year ended 31 December 2021 to approximately RMB90.1 million for the year ended 31 December 2022, primarily due to the increase in R&D costs of self-produced IGBTs.

Other expenses and losses

The other expenses and losses significantly decreased by approximately 63.5% from approximately RMB13.7 million for the year ended 31 December 2021 to approximately RMB5.0 million for the year ended 31 December 2022, primarily due to the increase in revenue from forward foreign exchange contracts.

Finance costs

The finance costs decreased by approximately 26.2% from approximately RMB10.3 million for the year ended 31 December 2021 to approximately RMB7.6 million for the year ended 31 December 2022, primarily due to the decrease in average balance of bank borrowings for the period.

Share of losses of a joint venture

The share of losses of a joint venture significantly increased by approximately 72.7% from approximately RMB2.2 million for the year ended 31 December 2021 to approximately RMB3.8 million for the year ended 31 December 2022, primarily due to the increase in losses of Beijing Yaoting Tengyi Investment Partnership (Limited Partnership) (北京曜廷騰逸投資合夥企業(有限合夥)).

Profit before tax

The profit before tax increased by approximately 6.3% from approximately RMB36.6 million for the year ended 31 December 2021 to approximately RMB38.9 million for the year ended 31 December 2022, primarily due to the increase in revenue from forward foreign exchange contracts.

Income tax expense

The income tax expenses decreased by approximately 12.2% from approximately RMB18.1 million for the year ended 31 December 2021 to approximately RMB15.9 million for the year ended 31 December 2022, primarily due to the decrease in partial deferred tax in the current period.

Total comprehensive income for the year

The net profit margin, which is calculated as profit attributable to owners of the parent for the year divided by revenue, increased from approximately 1.7% for the year ended 31 December 2021 to approximately 2.6% for the year ended 31 December 2022.

The profit attributable to owners of the parent significantly increased by approximately 54.8% from approximately RMB15.5 million for the year ended 31 December 2021 to approximately RMB24.0 million for the year ended 31 December 2022, primarily due to the increase in revenue from forward foreign exchange contracts.

The total comprehensive income attributable to owners of the parent increased by approximately 37.3% from approximately RMB18.5 million for the year ended 31 December 2021 to approximately RMB25.4 million for the year ended 31 December 2022, primarily due to the increase in revenue from forward foreign exchange contracts.

Inventories

The inventories decreased by approximately 21.0% from approximately RMB206.5 million as at 31 December 2021 to approximately RMB163.1 million as at 31 December 2022, primarily due to the decrease in stock at the end of the period.

The average inventory turnover days decreased from approximately 147 days for the year ended 31 December 2021 to approximately 112 days for the year ended 31 December 2022, primarily due to the decrease in stock at the end of the period.

Trade and bills receivables

The trade and bills receivables increased by approximately 26.8% from approximately RMB629.3 million as at 31 December 2021 to approximately RMB798.2 million as at 31 December 2022, primarily due to the relatively slow turnover of cash collection caused by the pandemic.

The average trade and bills receivables turnover days increased from approximately 245 days for the year ended 31 December 2021 to approximately 258 days for the year ended 31 December 2022, primarily due to the relatively slow turnover of cash collection caused by the pandemic.

Trade and bills payables

The trade and bills payables increased by approximately 37.7% from approximately RMB182.1 million as at 31 December 2021 to approximately RMB250.8 million as at 31 December 2022, primarily due to the account period management.

The average trade and bills payables turnover days increased from approximately 102 days for the year ended 31 December 2021 to approximately 118 days for the year ended 31 December 2022, primarily due to the account period management.

Liquidity and financial resources

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

The current ratio (current assets divided by current liabilities) increased from approximately 4.2 as at 31 December 2021 to approximately 4.3 as at 31 December 2022, primarily due to the increase in accounts receivable.

The cash and cash equivalents increased by approximately 5.4% from approximately RMB587.2 million as at 31 December 2021 to approximately RMB618.8 million as at 31 December 2022, primarily due to the net cash inflow from operating activities and the increase in financing in the period. As at 31 December 2022, the cash and bank balances denominated in Renminbi amounted to approximately RMB429.0 million (2021: approximately RMB485.8 million).

As at 31 December 2022, the interest-bearing bank borrowings were denominated in Renminbi. The interest-bearing bank borrowings decreased by approximately 28.5% from approximately RMB204.1 million as at 31 December 2021 to RMB146.0 million as at 31 December 2022, primarily due to the adjustment of capital structure of the Group.

The gearing ratio, measured on the basis of total interest-bearing bank borrowings divided by total equity, decreased from approximately 11.3% as at 31 December 2021 to approximately 7.6% as at 31 December 2022, primarily due to the decrease in balance of bank loans of the Group.

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

Foreign currency exposure

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

Contingent liabilities

As at 31 December 2022, the Group had no significant contingent liabilities (31 December 2021: Nil).

Pledge of Group's assets

As at 31 December 2022, certain of the bills payable were secured by the pledge of the bank deposits amounting to approximately RMB0.5 million (2021: approximately RMB0.7 million) and the bills receivable amounting to approximately RMB48.7 million (2021: approximately RMB23.2 million), respectively.

As at 31 December 2022, bank loans in the amount of RMB5.0 million were secured by certain of the land use rights and buildings with net carrying amounts at 31 December 2022 of approximately RMB11.5 million and RMB37.1 million (2021: approximately RMB11.8 million and RMB38.6 million), respectively.

As at 31 December 2022, bank loans in the amount of RMB100.0 million were secured by certain of the land use rights and buildings, plant and machinery with net carrying amounts at 31 December 2022 of approximately RMB16.7 million and RMB163.5 million (2021: approximately RMB17.1 million and RMB84.3 million), respectively.

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

Save as disclosed in this annual report and the consolidated financial statements, there were no significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2022. Save as disclosed in this annual report and the consolidated financial statements, there was no plan authorised by the Board for material investments or capital assets as at the date of the consolidated financial statements.

EXECUTIVE DIRECTORS

Mr. Xiang Jie, aged 49, is the founder of the Group, the chairman of the Board and an executive Director. Mr. Xiang is primarily responsible for the overall corporate strategy, planning and business development of the Group. Mr. Xiang is also the director of New Excel Holdings Limited, the director of Sunking Pacific Limited, the executive director of Jiashan Sunking Power Equipment Technology Co., Ltd. (嘉善華瑞賽晶電氣設備科技有限公司) (“**Jiashan Sunking**”), the chairman (董事長) and the manager (經理) of Sunking Pacific Semiconductor Technology (Zhejiang) Co., Ltd. (賽晶亞太半導體科技(浙江)有限公司) (“**Sunking Semiconductor Zhejiang**”), the president of the board of directors of Astrol Electronic AG and the president of the board of directors of SwissSEM Technologies AG, all of which are subsidiaries of the Company.

After graduating from the Shanghai Maritime University (上海海事大學) in the PRC in international shipping management in 1995, Mr. Xiang obtained a master’s degree in business administration from the Maastricht School of Management in the Netherlands in 1999. Mr. Xiang has extensive experience in trading and power electronics sectors.

Mr. Gong Renyuan, aged 52, is the chief executive officer of the Company, the president of the Group and an executive Director. Mr. Gong is primarily responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets.

Before joining the Group in 2002, Mr. Gong had accumulated over eight years of experience in business operations. In 1993, Mr. Gong completed the programme in business English (外貿英語專科) organised by the Beijing University of Technology (北京工業大學) in the PRC. Mr. Gong is the spouse of Ms. Ren Jie, who is a member of the senior management of the Company.

Mr. Yue Zhoumin, aged 53, is a vice president of the Group and an executive Director. Mr. Yue is primarily responsible for the strategic planning and development of the Group. Since 2021, Mr. Yue has also been responsible for the overall procurement process of the Group and the daily operations of the procurement department. Mr. Yue is also the executive director and the manager (經理) of Beijing Sunking Power Electronics Technology Co., Ltd. (北京賽晶電力電子科技有限公司) (“**Beijing Power**”), and the executive director and the manager of Beijing Sunking Electronic Technology Co., Ltd. (北京華瑞賽晶電子科技有限公司) (“**Beijing Sunking**”), all of which are subsidiaries of the Company.

Mr. Yue has extensive experience in corporate project management and fund raising in the capital market. Mr. Yue is highly experienced in strategic management and before joining the Group in 2009, he worked in the strategy division of COSCO SHIPPING Holdings Co., Ltd. (formerly known as China COSCO Holdings Company Limited), which is a company listed on the Stock Exchange (stock code: 1919), from 2005 to 2009. Mr. Yue graduated from the Shanghai Maritime University (上海海事大學) in the PRC with a bachelor’s degree in economics in 1994.

NON-EXECUTIVE DIRECTOR

Ms. Zhang Ling, aged 53, joined the Company as a non-executive Director in December 2017.

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

Ms. Zhang obtained her bachelor’s degree in precision instrument (精密儀器系) from the Tianjin University (天津大學) in the PRC in 1991 and her master’s degree from the Guanghua School of Management of the Peking University (北京大學光華管理學院) in the PRC in 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Shimin, aged 64, joined the Company as an independent non-executive Director in August 2010.

Mr. Chen is a professor of accounting, the Zhuxiaoming Chair Professor of Accounting (朱曉明會計學教席教授) and the Director of Case Development Centre (案例發展中心主任) at the China Europe International Business School (中歐國際工商學院) in the PRC. Mr. Chen has extensive accounting teaching and research experience in the PRC and overseas.

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

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

Mr. Chen is a certified management accountant registered in the United States, and a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen graduated from the Shanghai University of Finance and Economics (上海財經大學) in the PRC with a bachelor's degree and a master's degree in economics in 1983 and 1985, respectively, and obtained a doctoral degree in philosophy from the University of Georgia in the United States in 1992.

Mr. Zhang Xuejun, aged 57, joined the Company as an independent non-executive Director in December 2016.

Since 2019, Mr. Zhang has been serving as the secretary to the Party Committee (黨委書記) of Shunliban Information Service Co., Ltd. (順利辦信息服務股份有限公司), which is a company listed on the Shenzhen Stock Exchange (stock code: 000606). From 1986 to 1992, Mr. Zhang worked at the School of English and the School of Political Science and Law in the Capital Normal University (首都師範大學) (formerly known as the Beijing Normal College (北京師範學院)). From 1992 to 2000, Mr. Zhang served in the Municipal Party Committee of the Youth League in Beijing (北京市團委) and the Heping Sub-district Office in the Chaoyang District in Beijing (北京市朝陽區和平街街道辦事處) and successively assumed the positions of deputy office head (辦公室副主任) and secretary to the Committee of the Party Work Committee (黨工委書記). From 2000 to 2011, Mr. Zhang served in the Central Committee of the Chinese Communist Youth League (共青團中央) and successively assumed the positions of deputy director of the Chinese Young Pioneers Business Development Centre (團中央中國少先隊事業發展中心副主任) deputy director of the Central Juvenile Department (團中央少年部) and the Centre Propaganda Department (團中央宣傳部) and director of the Central Juvenile Department (團中央少年部) of the Central Committee of the Chinese Communist Youth League, deputy director of the National Committee of Chinese Young Pioneers (全國少工委副主任) and member of the 16th Central Standing Committee of the Central Committee of the Chinese Communist Youth League (十六屆團中央常委). From 2008 to 2011, Mr. Zhang served as a deputy secretary (department level) to the Municipal Party Committee of Jiujiang in Jiangxi Province (江西省九江市委副書記(正廳級)). From 2011 to 2014, Mr. Zhang served as a party secretary to and a director of the Foreign Affairs Office in Jiangxi Province (江西省外事僑務辦公室). From 2014 to 2016, Mr. Zhang was a party member of and served as the secretary general (秘書長) to the Chinese Western Returned Scholars Association (歐美同學會). From 2016 to 2017, Mr. Zhang served as a co-chief executive officer of Hsin Chong Group Holdings Limited (新昌集團控股有限公司), which was a company formerly listed on the Stock Exchange, and was primarily responsible for managing the business in the Mainland China. From 2017 to 2019, Mr. Zhang served as the vice general manager (副總經理) of China Communication Group (神州通信集團).

Mr. Zhang graduated from the Capital Normal University (首都師範大學) (formerly known as the Beijing Normal College (北京師範學院)) in the PRC with a bachelor's degree in philosophy. Mr. Zhang also completed an on-job postgraduate course at the Chinese Academy of Social Sciences (中國社會科學院) in the PRC. Subsequently, Mr. Zhang obtained a master's degree in EMBA from the Cheung Kong Graduate School of Business (長江商學院) in the PRC in 2006. Mr. Zhang studied in the doctoral program in global finance at the PBC School of Finance of Tsinghua University in the PRC in 2017. Mr. Zhang obtained a doctoral degree in applied finance from the University of Geneva in Switzerland in February 2021.

Mr. Leung Ming Shu, aged 47, joined the Company as an independent non-executive Director in March 2017.

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

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

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

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

COMPANY SECRETARY

Ms. He Lina, aged 44, is the company secretary to the Company. Ms. He joined the Group as the legal manager of the Group in July 2008. Ms. He was appointed as a joint company secretary to the Company in April 2016 and was further appointed as the company secretary to the Company in April 2019. Ms. He is also the supervisor of Beijing Sunking, the supervisor of Zhejiang Jiashan Keneng Power Equipment Co., Ltd. (浙江嘉善科能電力設備有限公司) and the supervisor of Wuhan Langde Electric Co., Ltd. (武漢朗德電氣有限公司) ("**Wuhan Langde**"), all of which are subsidiaries of the Company.

Ms. He is an associate member of the Hong Kong Chartered Governance Institute (formerly known as the Hong Kong Institute of Chartered Secretaries) and the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. He has over 10 years of experience in overseeing regulatory compliance issues of a listed company. Ms. He graduated from the China University of Political Science and Law (中國政法大學) in the PRC with a bachelor's degree in economic law in 2001 and obtained a master's degree in corporate governance from the Hong Kong Metropolitan University (formerly known as the Open University of Hong Kong) in 2018.

SENIOR MANAGEMENT

Mr. Li Jinyan, aged 44, is a vice president of the Group. Mr. Li is primarily responsible for sales and marketing of the Group's products. Mr. Li is also the chairman (董事長) of Wuhan Langde, the executive director of Wuxi Sichuang Power Electronics Technology Co., Ltd. (無錫思創電力電子科技有限公司), the executive director and the general manager (總經理) of Wuxi Sichuang Software Technology Co., Ltd. (無錫思創軟件科技有限公司) and a director of Sunking Semiconductor Zhejiang, all of which are subsidiaries of the Company.

Mr. Li joined the Group after graduating from the University of Science and Technology Beijing (北京科技大學) in the PRC with a bachelor's degree in automation in 2004.

Ms. Ren Jie, aged 45, is a vice president of the Group. Ms. Ren is primarily responsible for the overall management of the human resources and administration department of the Group. Ms. Ren is also the supervisor of Jiashan Sunking, the supervisor of Beijing Power and the supervisor of Wuxi Sunking Power Capacitor Co., Ltd. (無錫賽晶電力電容器有限公司), all of which are subsidiaries of the Company.

Ms. Ren joined the Group in 2001 after graduating from the Xi'an International Studies University (西安外國語學院) in the PRC with a major in English in 1998. Ms. Ren obtained a master's degree in business administration from the Beijing Jiaotong University (北京交通大學) in the PRC in 2014. Ms. Ren is the spouse of Mr. Gong Renyuan, who is the chief executive officer of the Company, the president of the Group and an executive Director.

Mr. Bo Xiangpeng, aged 38, is the chief financial officer of Group. Mr. Bo joined the Group in 2010 and was promoted to the financial controller of the Group in 2013. Mr. Bo was appointed as the chief financial officer of the Group in April 2016. Mr. Bo is also the supervisor of Sunking Pacific Semiconductor Technology (Beijing) Co., Ltd. (賽晶亞太半導體科技(北京)有限公司), the supervisor of Jiashan Sunking Capacitor Co., Ltd. (嘉善賽晶電容器有限公司), a director of Sunking Semiconductor Zhejiang and a director of Wuhan Langde, all of which are subsidiaries of the Company.

Mr. Bo is a non-practising member of the Chinese Institute of Certified Public Accountants. Mr. Bo has over 10 years of experience working in accounting and financing fields. Mr. Bo graduated from the Shandong University of Finance and Economics (山東財經大學) in the PRC with a bachelor's degree in business management in 2006 and obtained a master's degree in business administration from the Nankai University (南開大學) in the PRC in 2008.

Mr. Michael Simon Geissmann, aged 45, is a vice president of the Group. Mr. Geissmann is primarily responsible for the European business expansion of the Group. Mr. Geissmann is also a director of Astrol Electronic AG and SwissSEM Technologies AG, all of which are subsidiaries of the Company.

Since 2016, Mr. Geissmann has been the chief executive officer of Astrol Electronic AG, which is a subsidiary of the Company. Before joining the Group in 2008 as the chief operating officer of the Group, Mr. Geissmann worked for ABB Schweiz AG, Semiconductors from 2004 to 2008 as a supply chain manager. Mr. Geissmann has extensive international business experience in power electronics. Mr. Geissmann obtained a master's degree in information technology and electronic engineering from the Swiss Federal Institute of Technology in Zurich in Switzerland in 2003.

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

CORPORATE GOVERNANCE

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the Shareholders. The Company has adopted the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with the aim of maintaining and improving the standard of corporate governance practices. The Company complied with all applicable code provisions of the Corporate Governance Code during the year ended 31 December 2022.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, the Directors complied with the required standards as set out in the Model Code during the year ended 31 December 2022.

BOARD OF DIRECTORS

Responsibilities of the Board and Management

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

Composition

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

During the year ended 31 December 2022, the Board at all times complied with the requirements relating to the respective retirement and re-election of one-third of the members of the board of listed companies. There were three independent non-executive Directors in the Board, representing approximately 42.9% of the Board members, among which two independent non-executive Directors possessed appropriate professional qualifications, or accounting or related financial management expertise. Therefore, the requirements under the Listing Rules in relation to board composition were fully complied with.

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

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

Number of meetings and attendance

The Board holds meetings regularly to discuss the overall strategies, and operational and financial performance of the Group. The Directors can attend meetings in person or via electronic means. During the year ended 31 December 2022, a total of four meetings of Directors were held to review and approve the financial and operational results of the Group. The attendance record of the Directors at Board meetings and Shareholders' meetings during the year ended 31 December 2022 is set out below:

	Attended/Eligible to attend	
	Board meeting	Shareholders' meeting
Executive Directors		
Mr. Xiang Jie	4/4	1/1
Mr. Gong Renyuan	4/4	1/1
Mr. Yue Zhoumin	4/4	1/1
Non-executive Director		
Ms. Zhang Ling	4/4	1/1
Independent non-executive Directors		
Mr. Chen Shimin	4/4	1/1
Mr. Zhang Xuejun	4/4	1/1
Mr. Leung Ming Shu	4/4	1/1

In addition, three written resolutions were passed and three meetings of executive Directors were held during the year ended 31 December 2022.

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

As disclosed in the announcement of the Company dated 3 January 2022, Mr. Zhao Hang tendered his resignation as an independent non-executive Director with effect from 1 January 2022 due to work arrangement.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Board is mainly responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer of the Company is mainly responsible for overseeing the overall business of the Group, including devising and implementing business development strategies and targets. Currently, Mr. Xiang Jie is the chairman of the Board and Mr. Gong Renyuan is the chief executive officer of the Company. During the year ended 31 December 2022, one meeting without the presence of executive Directors was held between the chairman of the Board and the independent non-executive Directors.

NON-EXECUTIVE DIRECTORS

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

BOARD COMMITTEES

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

(a) Audit committee

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

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

The audit committee held three meetings during the year ended 31 December 2022. During the meetings, the audit committee confirmed the appointment of Ernst & Young as the external auditors of the Company and fixed its remuneration, and reviewed the procedures for internal control of the Group. The audit committee also reviewed the interim and annual results of the Group for the year ended 31 December 2022 and the auditor’s report prepared by the external auditors in relation to accounting matters and any material findings during the audit. The audit committee was of the opinion that such financial statements and report complied with the applicable accounting policy standards and requirements and that adequate disclosures have been made. The attendance record of the meetings of the audit committee during the year ended 31 December 2022 is set out below:

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

(b) Remuneration committee

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

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

The remuneration committee held two meetings during the year ended 31 December 2022. During the meetings, the remuneration committee made recommendation on the Directors' fees and the remuneration of the senior management. The attendance record of the meetings of the remuneration committee during the year ended 31 December 2022 is set out below:

Directors	**Attended/Eligible to attend**
Mr. Leung Ming Shu *(Chairman of the remuneration committee)*	2/2
Mr. Chen Shimin	2/2
Mr. Zhang Xuejun	2/2

Remuneration payable to senior management of the Company (excluding Directors) for the year ended 31 December 2022 is within the following bands:

	Number of individuals	
	2022	2021
RMB200,000 – RMB300,000	**0**	0
RMB300,001 – RMB400,000	**0**	0
RMB400,001 – RMB500,000	**0**	0
Above RMB500,000	**6**	6

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

(c) Nomination committee

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

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

Nomination Policy

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

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

(a) participating in Board meetings to bring an independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

(b) taking the lead where potential conflict of interests arise;

(c) serving on the audit committee, the remuneration committee and the nomination committee (in the case of candidate for non-executive Director) and other relevant committees of the Board, if invited;

(d) bringing a range of business and financial experience to the Board, giving the Board and any committee of the Board on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in Board/committee meetings;

(e) scrutinising the performance of the Group in achieving the predetermined corporate goals and objectives, and monitoring the reporting of performance;

(f) ensuring the committees of the Board on which he or she serves to perform their powers and functions conferred on them by the Board; and

(g) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with, among other things, the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an independent non-executive Director as required under Rule 3.10(2) of the Listing Rules.

The nomination committee held one meeting during the year ended 31 December 2022. During the meeting, the nomination committee reviewed the independence of the independent non-executive Directors, composition of the Board and the Board Diversity Policy. The attendance record of the meeting of the nomination committee during the year ended 31 December 2022 is set out below:

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

Board Diversity Policy

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

The Board reviewed the implementation and effectiveness of the Board Diversity Policy during the year ended 31 December 2022 and considered that such policy was effective in upholding the diversity of the Board.

(d) Strategy and sustainability committee

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

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

The strategy and sustainability committee did not hold any meeting during the year ended 31 December 2022.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the year ended 31 December 2022 are as follows:

From May 2019 to September 2022, Mr. Chen Shimin, who is an independent non-executive Director, served as an independent director of Anxin Trust Co., Ltd. (安信信託股份有限公司), which is a company listed on the Shanghai Stock Exchange (stock code: 600816). From May 2020 to March 2023, Mr. Chen served as an independent director of China Fortune Land Development Co., Ltd. (華夏幸福基業股份有限公司), which is a company listed on the Shanghai Stock Exchange (stock code: 600340).

Since May 2022, Mr. Leung Ming Shu, who is an independent non-executive Director, has been serving as an independent non-executive director of Infinities Technology International (Cayman) Holding Limited, which is a company listed on the Stock Exchange (stock code: 1961). Since December 2022, Mr. Leung has been serving as an independent non-executive director of Gala Technology Holding Limited, which is a company listed on the Stock Exchange (stock code: 2458).

Save as disclosed herein, there was no change in the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the year ended 31 December 2022.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Board oversees the risk management and internal control systems of the Group through the audit committee on an ongoing basis. A review of the effectiveness and adequacy of the risk management and internal control systems of the Group has been conducted annually and the review covering the year ended 31 December 2022 was completed. The Board considered that the risk management and internal control systems of the Group during the review period were effective and adequate. The Board confirms that the Group has processes in place to identify, assess and manage the significant risks to the achievement of its strategic objectives.

The Company carries out the internal audit function through the audit department, which provides an analysis and independent appraisal of the effectiveness and adequacy of the risk management and internal control systems of the Group. The audit department of the Company conducted comprehensive annual audit on the internal control systems of the Group covering the year ended 31 December 2022 and submitted the “2022 Annual Report on Internal Control” for review by the Board.

During the year ended 31 December 2022, in addition to adhering to the existing stringent internal control measures, including the control on the separation of roles among incompatible positions, authorisation and approval control, accounting system control, property protection control, operational analysis control, raw material procurement control, budget control and quality control, the Company made improvement which includes the following:

(a) in order to promote anti-corruption and anti-bribery efforts and to strengthen the internal control mechanism of the Group, the Company has consolidated and modified the existing scattered anti-corruption policies and systems and revised the existing whistleblowing policy and system, whereby any employee or third party has the right to make a report of suspected irregularities to the head of the Group, the corporate management department and the legal affairs department; and

(b) the Company has updated the “Regulations on Expense Reimbursement Management” to strengthen the financial management of the Company, standardise the expense reimbursement process of each member of the Group and reasonably control the expenses.

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

CORPORATE GOVERNANCE FUNCTIONS

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

(a) developing and reviewing the policies and practices of the Group on corporate governance;

(b) reviewing and monitoring the training and continuous professional development of the Directors and senior management of the Company;

(c) reviewing and monitoring the policies and practices of the Group in compliance with legal and regulatory requirements; and

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

In order to comply with the requirements of the code provision C.1.4 of the Corporate Governance Code, all the Directors have participated in training in relation to continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant. To summarise, the Directors received trainings on the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") and the Listing Rules to update and develop their skills and knowledge during the year ended 31 December 2022, whose attendance is set forth as follows:

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

DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2022 and of the Company's profit and cash flows for the year ended 31 December 2022 and ensuring that such statements are prepared in accordance with the statutory requirements and applicable accounting standards.

AUDITOR'S REMUNERATION AND AUDITOR RELATED MATTERS

Ernst & Young has been appointed as the external auditor of the Company since 2012. In 2022, the Company accepted the annual audit fee of RMB1.7 million proposed by Ernst & Young. The relevant selection, appointment and resignation procedures for accounting firms have been reviewed and approved by the audit committee and the Board.

The statement of the external auditor of the Company about its reporting responsibilities for the financial statements is set out under the section headed "Independent Auditor's Report" on pages 34 to 37 of this annual report. During the year ended 31 December 2022, other than the audit fee, RMB0.60 million was paid to Ernst & Young for its performance of interim review.

GENDER DIVERSITY OF WORKFORCE

As at 31 December 2022, the Group employed 778 employees (including 5 senior management), among which 466 were male and 312 were female. Given the ratio of male employees to female employees of approximately 6:4, the Board considered that gender diversity of workforce had been achieved.

COMPANY SECRETARY

Ms. He Lina was appointed as the company secretary to the Company in April 2016. Ms. He is an employee of the Company and reports to the chairman of the Board and is responsible for advising the Board on corporate governance matters. Ms. He has confirmed that she had taken not less than 15 hours of relevant professional training during the year ended 31 December 2022.

SHAREHOLDERS' RIGHTS

(a) Convening Shareholders' meetings and proposing procedures

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

(b) Making enquiries to the Board

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

INVESTOR RELATIONS

(a) Constitutional documents

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

(b) Shareholders' communication

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

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

The Board is satisfied with the implementation and effectiveness of the Shareholders' Communication Policy given the above means of communication adopted by the Company during the year ended 31 December 2022.

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

PRINCIPAL ACTIVITIES

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

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

FAIR REVIEW OF BUSINESS

A fair review of the business of the Group as well as a discussion and analysis of the Group's performance during the year ended 31 December 2022 and the material factors underlying its financial performance are set out in the chairman's statement on page 3 of this annual report and under the section headed "Management Discussion and Analysis" on pages 4 to 10 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are disclosed in note 26 to the consolidated financial statements.

Foreign currency risk

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

Credit risk

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

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

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

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

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

For further details of the principal risks and uncertainties, please refer to note 37 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2022 and its financial position as at that date are set out in the consolidated financial statements on pages 38 to 40 of this annual report.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2022 (2021: Nil).

Dividend policy

(a) Purpose

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

(b) Principles and guidelines

(i) The Board adopts the policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as the Shareholder value.

(ii) The Company does not have any pre-determined payout ratio.

(iii) The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the provisions of the Articles of Association and all applicable laws and regulations and the factors set out below.

(iv) The Board shall also take into account the following factors of the Company and its subsidiaries when considering the declaration and payment of dividends:

(A) financial results;

(B) cash flow position;

(C) business conditions and strategies;

(D) future operations and income;

(E) capital requirements and budgets;

(F) interests of the Shareholders;

(G) any restrictions on payment of dividends; and

(H) any other factor that the Board deems relevant.

(v) Depending on the financial conditions of the Company and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period;

(A) interim dividend;

(B) final dividend;

(C) special dividend; and

(D) any distribution of profits that the Board may deem appropriate.

(vi) Any final dividend for a financial year will be subject to Shareholders' approval.

(vii) The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

(viii) Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association.

(c) Review of the policy

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

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 106 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2022 are set out in note 13 to the consolidated financial statements.

EVENTS AFTER REPORTING PERIOD

There were no important events affecting the Group which have occurred since 31 December 2022 and up to the date of this annual report.

SHARE OPTION SCHEME

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

The Board may, at its absolute discretion, offer share options to the Eligible Participants to subscribe for the Shares at an exercise price and subject to the terms of the Share Option Scheme. The total number of Shares which may be issued upon the exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 136,604,000 Shares, representing 10% of the total number of Shares in issue upon the Listing and approximately 8.38% of the total number of Shares in issue as at 31 December 2022.

The total number of Shares issued and to be issued upon the exercise of the share options granted or to be granted to each Eligible Participant under the Share Option Scheme and any other schemes of the Group (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The Share Option Scheme was terminated on 3 June 2020 such that no further share options could be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any share option granted prior to the termination. Under the Share Option Scheme, each share option has a 10-year exercise period unless otherwise determined by the Board. There is no minimum period for which a share option must be held before it can be exercised unless otherwise determined by the Board and specified in the offer. HK$1 shall be payable on acceptance of the share options within such time as may be specified in the offer, which shall not be later than 21 days from the date on which the share options are offered.

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

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the share options are offered;

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

(c) the nominal value of a Share.

Details of movements in the share options under the Share Option Scheme during the year ended 31 December 2022 and share options outstanding as at the beginning and the end of the year are set out below:

Grantees	Date of grant	Number of share options As at 1 January 2022	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled/ Forfeited during the period	As at 31 December 2022	Exercise price per share (HK$)	Share price immediately before the date of grant (HK$ per share)	Weighted average share price immediately before the date of exercise (HK$ per share)	Fair value of share options (HK$ per share)	Vesting period	Exercisable period
Employees in aggregate	24 August 2016	779,500	-	(779,500)	-	-	-	1.17	1.19	2.21	0.53	One year from the date of grant	24 August 2017 to 23 August 2022
	1 April 2020	11,554,000	-	(2,536,000)	(800,000)	-	8,218,000	1.10	1.07	2.28	0.39	One year from the date of grant	1 April 2021 to 31 March 2026
Total		**12,333,500**	**-**	**(3,315,500)**	**(800,000)**	**-**	**8,218,000**						

Further details of the Share Option Scheme are set out in note 29 to the consolidated financial statements.

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

(a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any subsidiary or any entity in which any member of the Group holds any equity interest (the "**Invested Entity**");

(b) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any Invested Entity;

(c) any supplier of goods to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity,

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

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

The Board may, at its absolute discretion, offer share options to the Eligible Participants to subscribe for the Shares at an exercise price and subject to the terms of the New Share Option Scheme. The total number of Shares which may be issued upon the exercise of all share options to be granted under the New Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 163,083,100 Shares, representing 10% of the total number of Shares in issue as at the date of approval of the New Share Option Scheme and approximately 10% of the total number of Shares in issue as at the date of this annual report.

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

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

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the share options are offered;

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

(c) the nominal value of a Share.

No share option had been granted under the New Share Option Scheme during the year ended 31 December 2022.

RESERVES

Details of the movements in the reserves of the Group during the year ended 31 December 2022 are set out in the consolidated statement of changes in equity on page 41 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act of the Cayman Islands (the "**Companies Act**"), amounted to approximately RMB400.1 million (31 December 2021: approximately RMB412.5 million), of which final dividend has not been proposed for the year ended 31 December 2022. In addition, under the Companies Act, the amount of approximately RMB400.1 million in the share premium account of the Company as at 31 December 2022 (31 December 2021: RMB412.5 million) was distributable to the Shareholders (subject to the provisions of the Articles of Association), provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend, if any, is proposed to be paid. The Company's share premium account may be distributed in the form of fully paid bonus Shares.

DIRECTORS

The Directors during the year ended 31 December 2022 and up to the date of this annual report were as follows:

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

Non-executive Director
Ms. Zhang Ling

Independent Non-executive Directors
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu

In accordance with Articles 83(3) and/or 84(1) of the Articles of Association, Mr. Gong Renyuan, Mr. Zhang Xuejun and Mr. Leung Ming Shu will retire by rotation and be eligible to offer themselves for re-election as the Directors at the forthcoming annual general meeting.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS’ SERVICE CONTRACTS

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

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

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

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

DIRECTORS’ REMUNERATION

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

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

During the year ended 31 December 2022 and at the end of the year ended 31 December 2022, no Director nor entity connected with any Directors was materially interested, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which any member of the Group was a party.

PERMITTED INDEMNITY

Under the Articles of Association, the Directors are indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expense whatsoever, which they or any of them incur as a result of any act or failure to act in carrying out their functions other than such liability (if any), that they may incur by reason of their own fraud or dishonesty. Such permitted indemnity provision has been in force for the year ended 31 December 2022. The Company has arranged appropriate liability insurance coverage for the Directors.

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2022.

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

As at 31 December 2022, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO, as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Director	Nature of interest	Number of ordinary Shares held	Approximate percentage of interests in the Company *(Note 3)*
Mr. Xiang Jie	Beneficial owner and interest in controlled corporation	383,458,347 *(Note 1)*	23.52%
Mr. Gong Renyuan	Beneficial owner and interest of spouse	19,360,000 *(Note 2)*	1.19%
Mr. Yue Zhoumin	Beneficial owner	2,000,000	0.12%

Notes:

1. As at 31 December 2022, among the 383,458,347 Shares, 45,130,000 Shares were directly held by Mr. Xiang Jie and the remaining 338,328,347 Shares were directly held by Max Vision Holdings Limited. As at 31 December 2022, Max Vision Holdings Limited was wholly-owned by Jiekun Limited, which was wholly-owned by Sapphire Skye Holdings Limited. As at 31 December 2022, Sapphire Skye Holdings Limited was wholly-owned by Zedra Trust Company (Singapore) Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries.

2. As at 31 December 2022, among the 19,360,000 Shares, 15,060,000 Shares were held by Mr. Gong Renyuan and the remaining 4,300,000 Shares were held by Ms. Ren Jie, who is the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 4,300,000 Shares held by Ms. Ren Jie.

3. There were 1,630,328,000 Shares in issue as at 31 December 2022.

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

None of the Directors or the chief executives of the Company had any short position in the Shares, underlying Shares and debentures of the Company or any associated corporation as at 31 December 2022.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2022 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor child, or were any such rights exercised by them, or was any member of the Group a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2022, to the best knowledge of the Directors, the interests or short positions of the persons, other than a Director or a chief executive of the Company, in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO, were as follows:

(a) Long positions in the Shares and underlying Shares

Name of substantial Shareholder	Nature of interest	Number of ordinary Shares held	Approximate percentage of interests in the Company (Note 3)
Max Vision Holdings Limited	Beneficial owner	338,328,347 (Note 1)	20.75%
Jiekun Limited	Interest in controlled corporation	338,328,347 (Note 1)	20.75%
Sapphire Skye Holdings Limited	Nominee	338,328,347 (Note 1)	20.75%
Zedra Trust Company (Singapore) Limited	Trustee	338,328,347 (Note 1)	20.75%
Meng Fankun	Interest of spouse	383,458,347 (Notes 1 and 2)	23.52%

Notes:

1. As at 31 December 2022, Max Vision Holdings Limited was wholly-owned by Jiekun Limited, which was wholly-owned by Sapphire Skye Holdings Limited. As at 31 December 2022, Sapphire Skye Holdings Limited was wholly-owned by Zedra Trust Company (Singapore) Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. As such, Jiekun Limited, Sapphire Skye Holdings Limited and Zedra Trust Company (Singapore) Limited were deemed under the SFO to be interested in the 338,328,347 Shares held by Max Vision Holdings Limited.

2. Ms. Meng Fankun, who is the spouse of Mr. Xiang Jie, was deemed under the SFO to be interested in the 383,458,347 Shares in which Mr. Xiang Jie was interested.

3. There were 1,630,328,000 Shares in issue as at 31 December 2022.

(b) Short positions in the Shares and underlying Shares

Save as disclosed above, as at 31 December 2022, the Company had not been notified of any short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept under section 336 of the SFO.

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

The Company has received annual confirmations from Max Vision Holdings Limited (being the single largest Shareholder) and Mr. Xiang Jie in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the aforesaid undertaking and are of the view that Max Vision Holdings Limited and Mr. Xiang Jie had complied with the non-competition undertaking during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were 1,630,328,000 shares (the "**Shares**") in issue as at 31 December 2022.

For the year ended 31 December 2022, the Company repurchased 10,120,000 shares on the HKSE for a total purchase price (including relevant expenses) of approximately HK$19,981,454. Details of the repurchase of such shares are as follows:

Month of repurchase in 2022	Number of Shares repurchased	Purchase price per Shares Highest (HK$)	Purchase price per Shares Lowest (HK$)	Total purchase price (Approximation) (HK$)
April	1,800,000	2.28	2.05	3,855,245
May	2,200,000	2.17	1.98	4,571,042
August	1,000,000	2.25	2.15	2,211,986
September	3,600,000	2.21	1.62	7,048,532
October	1,220,000	1.65	1.34	1,818,867
November	300,000	1.61	1.58	475,782

The 10,120,000 shares repurchased were cancelled in 2022.

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

PRE-EMPTIVE RIGHTS

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

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2022, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the related party transactions of the Company are set out in note 34 to the consolidated financial statements. Such related party transactions include the following connected transactions of the Company under the Listing Rules:

Related party transaction which constitutes connected transaction	Compliance with the Listing Rules
Compensation paid to key management personnel of the Group as set out in note 34(a) to the consolidated financial statements	These were fully exempt continuing connected transactions under Rule 14A.95 of the Listing Rules.

The loans in the amounts of RMB4.5 million, RMB4.9 million, RMB20,000 and RMB10,000 were advanced by Jiashan Sunking, which is a wholly-owned subsidiary of the Company, to Yaoting, which is a joint venture owned as to approximately 99.99% by the Company and approximately 0.01% by an independent third party. As Yaoting is not a connected subsidiary (as defined in the Listing Rules), such related party transactions did not constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

During the year ended 31 December 2022, the Group had not entered into any connected transaction that is subject to the annual reporting requirement under Chapter 14A of the Listing Rules.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group employed 778 employees. Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The employees are also entitled to participate in the New Share Option Scheme. The Group conducts periodic reviews on the performance of its employees, and their salaries and bonuses are performance-based. The Group did not experience any significant problems with its employees or disruptions to its operations due to labour disputes, nor did it experience any difficulty in the recruitment and retention of experienced employees. The Group maintains a good relationship with its employees.

FOREIGN CURRENCY EXPOSURE

Details of the foreign currency exposure for the year ended 31 December 2022 are set out in note 37 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

According to the public information available to the Company and to the best knowledge of the Directors, as at the date of this annual report, at least 25% of the total number of Shares were held by the public.

SHARE CAPITAL

Details of the movements in the issued share capital of the Company for the year ended 31 December 2022 are set out in note 28 to the consolidated financial statements.

DONATIONS

For the year ended 31 December 2022, the Group made charitable donation in the amount of RMB112,000 (2021: RMB100,000).

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2022, the Group's five largest suppliers accounted for approximately 33.7% (2021: approximately 70.2%) of the Group's total purchases. The Group's largest supplier accounted for approximately 25.3% (2021: approximately 57.1%) of the Group's total purchases.

During the year ended 31 December 2022, the Group's sales to its five largest customers accounted for approximately 26.4% (2021: approximately 40.9%) of the Group's total sales. The Group's largest customer accounted for approximately 7.3% (2021: approximately 25.2%) of the Group's total sales.

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

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the New Share Option Scheme as disclosed under the section headed "Share Option Scheme" of this annual report, the Company had not entered into any equity-linked agreement during the year ended 31 December 2022.

REVIEW OF FINANCIAL STATEMENTS BY AUDIT COMMITTEE

The audit committee has reviewed with the management accounting principles and practices adopted by the Group and discussed the auditing, risk management, internal control and financial reporting matters, including the review of the audited consolidated financial statements of the Group for the year ended 31 December 2022.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out on pages 15 to 22 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

Established in the Cayman Islands, the Company operates its principle business in the PRC, whereas the Shares are listed on the Stock Exchange. Accordingly, the establishment and operations of the Company shall be subject to the relevant laws, rules and regulations of the Cayman Islands, the PRC and Hong Kong. During the year ended 31 December 2022 and as of the date of this annual report, the Group was in compliance with the relevant laws, rules and regulations of the Cayman Islands, the PRC and Hong Kong.

CLOSURE OF REGISTER

In order to establish the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Monday, 29 May 2023. The register of members of the Company will be closed from Tuesday, 30 May 2023 to Friday, 2 June 2023, both days inclusive, during which period no transfer of Shares will be registered. The Shareholders whose names appear on the register of members of the Company on Friday, 2 June 2023 are entitled to attend and vote at the forthcoming annual general meeting.

AUDITOR

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

PROSPECTS

Since the beginning of 2023, UHVDC and flexible DC transmissions have shown a good development momentum, not only the Jinshang – Hubei project has commenced construction, the Longdong-Shandong, the Ningxia-Hunan, the Southeast Tibet – Greater Bay Area DC transmission projects and a number of other projects are expected to be launched within the year. In addition, there are a number of potential projects in offshore wind power flexible DC grid-connected construction, upgrading of existing high-voltage DC transmission construction and overseas flexible DC transmission projects undertaken in the PRC. The above favourable market situation has laid a good foundation for the Group's related business development.

In 2023, the Group is expected to complete the R&D of a number of power semiconductor products and bring them to the market. In addition, the second production line for power semiconductor module encapsulation and testing is expected to be completed and begin production in the third quarter, which will further enhance the production capacity of related products.

Looking ahead, the "14th Five-Year Plan" period is a critical period and a window of opportunity to realise the strategic goal of "dual carbon", as well as a golden development period for the energy technology revolution and the upgrading of the energy equipment industry. The upstream and downstream industries of new energy, such as DC transmission, electric vehicles, new energy power generation and industrial control, which the Group is targeting, have shown good development momentum. With the corporate mission of "promoting green energy development through technological innovation", the Group will seize the opportunities for industrial development brought about by the energy technology reform to strengthen the composition of its R&D team, continuously build core technologies, and facilitate product innovation to ensure the rapid growth in the business scale of the Company and the steadily improvement in its operating efficiency.

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

OPINION

We have audited the consolidated financial statements of Sun.King Technology Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 38 to 105, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

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

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
Trade receivables constituted a significant portion of total assets as at 31 December 2022 and the Group was exposed to credit risks thereof. The Group recognises an allowance based on the expected credit loss ("**ECL**") approach under IFRS 9 *Financial Instruments*. The measurement of ECL requires the application of significant judgement and estimate, such as the expected future cash flows and forward-looking factors specific to the debtors and the economic environment. Relevant disclosures are included in note 20 to the financial statements.	Our audit procedures included the understanding of the Group's accounting policy of loss allowance for impairment of trade receivables. We assessed, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket. We assessed the management's ECL allowance by examining the information used by management to form such judgement and estimate, including checking the accuracy of the historical default information, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information. We evaluated the Group's provision for trade receivables by reference to the Group's subsequent collection of the trade receivables. We also assessed the adequacy of the disclosure in relation to the Group's recoverability of trade receivables.
Provision for inventories	
Inventories contributed a significant portion of total assets as at 31 December 2022 and the Group was exposed to inventory obsolete and excess risks as a result of the technology innovation. The determination of provision is accordingly complex because it depends on the future net recoverable amounts. Relevant disclosures are included in note 19 to the financial statements.	Our audit procedures included the understanding of the Group's accounting policy of provision for inventories. We performed stock count and observed the physical conditions of inventories. We performed the ageing analysis and considered the inventories' usage and sales as well as turnover days during the year. We also re-calculated the impairment amounts of the inventories based on management's methodology at year end.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Siu Ki Ricky.

Ernst & Young
Certified Public Accountants
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong
22 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	*5*	**917,780**	930,992
Cost of sales		**(656,379)**	(647,178)
Gross profit		**261,401**	283,814
Other income and gains, net	*5*	**69,690**	40,197
Selling and distribution expenses		**(69,223)**	(64,689)
Administrative expenses		**(116,387)**	(112,359)
Research and development costs		**(90,064)**	(84,064)
Other expenses and losses, net		**(5,033)**	(13,656)
Finance costs	*7*	**(7,648)**	(10,338)
Share of profits and losses of:			
A joint venture		**(3,842)**	(2,235)
An associate		**(8)**	(47)
PROFIT BEFORE TAX	*6*	**38,886**	36,623
Income tax expense	*10*	**(15,859)**	(18,072)
PROFIT FOR THE YEAR		**23,027**	18,551
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Fair value gains on financial investments at fair value through other comprehensive income		**2,970**	3,261
Exchange differences on translation of foreign operations		**(2,222)**	(372)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**748**	2,889
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**23,775**	21,440
Profit/(loss) attributable to:			
Owners of the parent		**23,986**	15,459
Non-controlling interests		**(959)**	3,092
		23,027	18,551
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**25,448**	18,506
Non-controlling interests		**(1,673)**	2,934
		23,775	21,440
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*		
Basic		**RMB1.47 cents**	RMB0.95 cents
Diluted		**RMB1.46 cents**	RMB0.95 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	**2022 RMB'000**	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**513,308**	516,782
Right-of-use assets	*14*	**59,361**	56,967
Deposits for purchase of property, plant and equipment		**42,601**	2,979
Goodwill	*15*	**6,878**	6,878
Other intangible assets	*16*	**71,560**	62,212
Investment in a joint venture	*17*	**9,846**	13,688
Investment in an associate	*17*	**1,139**	1,147
Contract assets	*20*	**45,729**	50,950
Deferred tax assets	*27*	**3,120**	6,020
Total non-current assets		**753,542**	717,623
CURRENT ASSETS			
Inventories	*19*	**163,114**	206,457
Trade and bills receivables	*20*	**798,243**	629,345
Contract assets	*20*	**6,938**	64,387
Prepayments, deposits and other receivables	*21*	**36,036**	61,345
Derivative financial instruments	*25*	**7,443**	–
Financial investments at fair value through other comprehensive income	*18*	**101,755**	98,261
Pledged deposits	*22*	**10,784**	12,547
Cash and cash equivalents	*22*	**618,768**	587,176
Total current assets		**1,743,081**	1,659,518
CURRENT LIABILITIES			
Trade and bills payables	*23*	**250,837**	182,092
Other payables and accruals	*24*	**79,863**	75,846
Contract liabilities	*24*	**13,769**	16,758
Lease liabilities	*14*	**2,795**	2,143
Interest-bearing bank borrowings	*26*	**45,990**	104,088
Tax payable		**15,615**	18,001
Total current liabilities		**408,869**	398,928
NET CURRENT ASSETS		**1,334,212**	1,260,590
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,087,754**	1,978,213

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	**2022 RMB'000**	2021 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,087,754**	1,978,213
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*26*	**100,000**	100,000
Lease liabilities	*14*	**8,249**	10,719
Deferred income		**63,218**	65,288
Deferred tax liabilities	*27*	**2,339**	2,653
Total non-current liabilities		**173,806**	178,660
Net assets		**1,913,948**	1,799,553
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*28*	**139,768**	140,377
Reserves	*30*	**1,691,251**	1,604,436
		1,831,019	1,744,813
Non-controlling interests		**82,929**	54,740
Total equity		**1,913,948**	1,799,553

Xiang Jie
Director

Yue Zhoumin
Director

	Notes	Attributable to owners of the parent										
		Issued capital RMB'000	Share premium account RMB'000	Employee share-based compensation reserve RMB'000 (note a)	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000 (note b)	Other reserve RMB'000 (note c)	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021		139,944	447,060*	9,472*	3,443*	14,765*	312,634*	830,145*	1,049*	1,758,512	15,323	1,773,835
Profit for the year		-	-	-	-	-	-	15,459	-	15,459	3,092	18,551
Other comprehensive income/(loss) for the year:												
Fair value gains on financial investments at fair value through other comprehensive income		-	-	-	-	-	3,207	-	-	3,207	54	3,261
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(160)	(160)	(212)	(372)
Total comprehensive income for the year		-	-	-	-	-	3,207	15,459	(160)	18,506	2,934	21,440
Acquisition of non-controlling interests		-	-	-	-	-	(14,570)	-	-	(14,570)	2,591	(11,979)
Capital injection from non-controlling shareholders		-	-	-	-	-	17,024	-	-	17,024	33,892	50,916
Exercise of share options	28	433	6,346	(1,869)	-	-	-	-	-	4,910	-	4,910
Share-based payments	29	-	-	1,362	-	-	-	-	-	1,362	-	1,362
Transfer from retained profits	30	-	-	-	-	-	5,565	(5,565)	-	-	-	-
Transfer from employee share-based compensation reserve		-	-	(6,054)	-	-	-	6,054	-	-	-	-
Final 2021 dividends		-	(40,931)	-	-	-	-	-	-	(40,931)	-	(40,931)
At 31 December 2021 and at 1 January 2022		**140,377**	**412,475***	**2,911***	**3,443***	**14,765***	**323,860***	**846,093***	**889***	**1,744,813**	**54,740**	**1,799,553**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**23,986**	**-**	**23,986**	**(959)**	**23,027**
Other comprehensive income/(loss) for the year:												
Fair value gains on financial investments at fair value through other comprehensive income		**-**	**-**	**-**	**-**	**-**	**3,024**	**-**	**-**	**3,024**	**(54)**	**2,970**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,562)**	**(1,562)**	**(660)**	**(2,222)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**3,024**	**23,986**	**(1,562)**	**25,448**	**(1,673)**	**23,775**
Capital injection from non-controlling shareholders		**-**	**-**	**-**	**-**	**-**	**74,088**	**-**	**-**	**74,088**	**29,862**	**103,950**
Exercise of share options	*28*	**280**	**3,996**	**(1,148)**	**-**	**-**	**-**	**-**	**-**	**3,128**	**-**	**3,128**
Shares repurchased and cancelled	*28*	**(889)**	**(16,382)**	**-**	**889**	**-**	**-**	**(889)**	**-**	**(17,271)**	**-**	**(17,271)**
Share-based payments	*29*	**-**	**-**	**813**	**-**	**-**	**-**	**-**	**-**	**813**	**-**	**813**
Transfer from retained profits	*30*	**-**	**-**	**-**	**-**	**-**	**8,243**	**(8,243)**	**-**	**-**	**-**	**-**
At 31 December 2022		**139,768**	**400,089***	**2,576***	**4,332***	**14,765***	**409,215***	**860,947***	**(673)***	**1,831,019**	**82,929**	**1,913,948**

Notes:

(a) The employee share-based compensation reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised.

(b) The deemed contribution reserve represents share-based payment expense incurred and recognised by the Group as settled by issue of shares of Sun.King Group Limited (賽晶集團有限公司) ("**Sunking BVI**"), a former shareholder of the Company.

(c) The other reserve mainly arose from certain waivers of loans and/or advances by Sunking BVI to the Group in prior years, acquisitions of/contributions from non-controlling interests, fair value changes on financial investments at fair value through other comprehensive income and the appropriation of statutory reserves.

* *These reserve accounts comprise the consolidated reserves of RMB1,691,251,000 (2021: RMB1,604,436,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**38,886**	36,623
Adjustments for:			
Finance costs	*7*	**7,648**	10,338
Share of profits and losses of a joint venture and an associate		**3,850**	2,282
Interest income	*5*	**(8,653)**	(10,397)
Fair value gains on financial investments at fair value through profit or loss	*5*	**(1,371)**	(2,565)
Fair value gains on financial investments at fair value through other comprehensive income	*5*	**–**	(191)
Gain on disposal of property, plant and equipment, net	*5*	**(190)**	(297)
Gain on disposal of assets classified as held for sale	*5*	**–**	(2,253)
Fair value losses/(gains) on foreign currency forward contracts, net	*6*	**(7,443)**	11,531
Depreciation of property, plant and equipment	*6*	**37,584**	25,740
Depreciation of right-of-use assets	*6*	**3,978**	3,906
Amortisation of other intangible assets	*6*	**8,153**	5,241
Impairment of trade receivables and contract assets, net	*6*	**4,848**	(1,375)
Impairment of financial assets included in prepayments, deposits and other receivables, net	*6*	**70**	745
Amortisation of deferred income		**(2,571)**	(669)
Write-down of inventories to net realisable value, net	*6*	**886**	(1,330)
Share-based payment expense	*6*	**813**	1,362
Loss on lease revision		**–**	13
		86,488	78,704
Decrease in inventories		**42,457**	78,763
Decrease/(increase) in trade and bills receivables and contract assets		**(108,772)**	236,970
Decrease/(increase) in prepayments, deposits and other receivables		**26,052**	(18,127)
Decrease in pledged deposits		**1,763**	10,589
Increase/(decrease) in trade and bills payables		**68,745**	(1,107)
Increase/(decrease) in other payables and accruals and contract liabilities		**4,711**	(8,911)
Change in derivative financial instruments		**–**	(16,356)
Effect of foreign exchange rate changes, net		**(7,614)**	3,787
Cash generated from operations		**113,830**	364,312
Interest paid		**(7,631)**	(10,724)
Income taxes paid		**(16,310)**	(8,747)
Net cash flows from operating activities		**89,889**	344,841

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**5,566**	7,279
Purchases of property, plant and equipment		**(37,818)**	(153,793)
Purchase of leasehold land		**(5,490)**	–
Purchase of financial investments at fair value through other comprehensive income		**–**	(105,000)
Purchase of financial investments at fair value through profit or loss		**(201,420)**	(416,000)
Proceeds from disposal of financial investments at fair value through other comprehensive income		**–**	10,191
Proceeds from disposal/maturity of financial investments at fair value through profit or loss		**202,791**	418,565
Proceeds from disposal of property, plant and equipment		**478**	861
Proceeds from disposal of assets classified as held for sale		**–**	6,500
Increase in deposits for purchase of property, plant and equipment		**(39,622)**	(2,844)
Additions to other intangible assets		**(15,227)**	(21,154)
Receipt of government grants for property, plant and equipment		**818**	1,510
Loans advanced to a joint venture		**(30)**	–
Net cash flows used in investing activities		**(89,954)**	(253,885)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	*28*	**3,128**	4,910
Repurchase of shares		**(17,271)**	–
New bank loans		**95,251**	281,443
Repayment of bank loans		**(153,349)**	(461,257)
Principal portion of lease payments	*31(b)*	**(2,700)**	(2,656)
Acquisition of non-controlling interests		**–**	(11,979)
Capital injection from non-controlling shareholders		**103,950**	50,916
Dividends paid		**–**	(40,931)
Net cash flows from/(used) in financing activities		**29,009**	(179,554)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**28,944**	(88,598)
Cash and cash equivalents at beginning of year		**587,176**	678,367
Effect of foreign exchange rate changes, net		**2,648**	(2,593)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**618,768**	587,176
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**618,768**	587,176

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Sunking Pacific Limited 賽晶亞太有限公司	Hong Kong	HK$1	100%	Investment holding
Jiashan Sunking Power Equipment Technology Co., Ltd.* 嘉善華瑞賽晶電氣設備科技有限公司	The PRC/ Mainland China	US$91,500,000	100%	Sale, research and development, after sales service and production of electrical/ electronic components and installation, including integrated gate bipolar transistors
Wuxi Sunking Power Capacitor Co., Ltd.* 無錫賽晶電力電容器有限公司	The PRC/ Mainland China	US$42,132,222	100%	Production of electrical capacitors and complete devices, amorphous alloy transformers, DC current anode saturable dry-type reactors, and FM voltage AC traction devices; trading agent of various products and technologies
Sunking Pacific Semiconductor Technology (Zhejiang) Co., Ltd.** 賽晶亞太半導體科技(浙江)有限公司	The PRC/ Mainland China	US$39,722,617	75.52%	Research and development, production and sales of IGBT, semiconductor components and other components
Beijing Sunking Power Electronics Technology Co., Ltd.* 北京賽晶電力電子科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Technology research for electronic power device railway equipment, sale and distribution of power electronic components, import and export of goods and technologies
Astrol Electronic AG	Switzerland	CHF110,000	65%	Manufacture and sale of pulsed power equipment, insulated gate bipolar transistor gate units, and other electronic parts

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

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

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

Except for Sunking Pacific Limited and Astrol Electronic AG, the English names of all the above companies are direct translations of their registered Chinese names.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) promulgated by the International Accounting Standards Board (the "**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for bills receivable, financial investments at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

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

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

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

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

Business combinations and goodwill

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

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

Fair value measurement

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

Buildings	2.3% to 4.5%
Leasehold improvements	20.0%
Plant and machinery	9.0% to 19.4%
Furniture and fixtures	9.0% to 64.7%
Motor vehicles	19.4% to 22.5%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

Patents, technology know-how, customer relationship and computer software

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

Research and development costs

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

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

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

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold land	43 to 50 years
Buildings	2 to 10 years

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee *(continued)*

(b) Lease liabilities

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

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

(c) Short-term leases

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement *(continued)*

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

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

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

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

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

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

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

Treasury shares

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Sale of power electronic components

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

Other income

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

Contract assets

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

Contract liabilities

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

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Share-based payments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

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

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

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

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

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

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

Pension schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

Dividends

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

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

Foreign currencies

These financial statements are presented in RMB, which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

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

Retention money receivable from customers

Generally, the Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including delivery of goods or completion of installation as stipulated in the respective sales contracts. Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. For those contracts with customers which have payment terms of retention money, the Group concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Group transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts was determined by discounting the amount of promised consideration using the appropriate discount rate.

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the distribution plan of dividends.

Estimation uncertainty

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

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e., by customer type and rating, and coverage by letters of credit or other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 20 to the financial statements.

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

Estimation uncertainty *(continued)*

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which the estimate has been changed. At 31 December 2022, the carrying amount of inventories was RMB163,114,000 (2021: RMB206,457,000).

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2022 was RMB583,000 (2021: RMB1,628,000). The amount of unrecognised tax losses at 31 December 2022 was RMB158,423,000 (2021: RMB135,117,000). Further details are contained in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

As the Group's major operations, customers and non-current assets are located in the People's Republic of China (the "**PRC**"), no further geographical segment information is provided.

Information about major customers

Revenue from single customers that individually accounted for 10% or more of the Group's revenue is as follows:

In 2022, there was no revenue derived from transactions with a single external customer which amounted to 10% or more of the Group's revenue.

In 2021, revenue of approximately RMB234,849,000 (more than 10% of the Group's revenue) was derived from sales to a single external customer.

5. REVENUE, OTHER INCOME AND GAINS, NET

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

	2022 RMB'000	2021 RMB'000
Revenue		
Sale of power electronic components	**917,780**	930,992

96% (2021: 98%) of the Group's revenue from contracts with customers is related to sales of power electronic components in Mainland China. The performance obligation is satisfied upon delivery of the products.

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

	2022 RMB'000	2021 RMB'000
Sale of power electronic components	**16,758**	19,284

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

An analysis of other income and gains is as follows:

	2022 RMB'000	2021 RMB'000
Government grants*	**26,090**	22,699
Bank interest income	**5,566**	6,244
Other interest income	**783**	782
Interest income arising from revenue contracts	**2,304**	3,371
Foreign exchange differences, net	**24,988**	–
Fair value gains on foreign currency forward contracts, net	**7,443**	–
Fair value gains on financial investments at fair value through profit or loss	**1,371**	2,565
Gain on derecognition of financial investments at fair value through other comprehensive income	**–**	191
Gain on disposal of assets classified as held for sale	**–**	2,253
Gain on disposal of property, plant and equipment, net	**190**	297
Others	**955**	1,795
	69,690	40,197

* *Various government grants have been received for investments in certain regions in Mainland China in which the Company's subsidiaries operate as well as for the Group's technology advancements and covid-19 subsidy. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these government grants.*

6. PROFIT BEFORE TAX

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

	Notes	**2022 RMB'000**	2021 RMB'000
Cost of inventories sold		**655,493**	648,508
Write-down of inventories to net realisable value, net		**886**	(1,330)
Cost of sales		**656,379**	647,178
Auditor's remuneration		**1,700**	1,700
Depreciation of property, plant and equipment	*13*	**37,584**	25,740
Depreciation of right-of-use assets	*14(a)*	**3,978**	3,906
Amortisation of deferred development costs	*16*	**4,628**	2,289
Amortisation of other intangible assets (excluding deferred development costs)	*16*	**3,525**	2,952
Lease payments not included in the measurement of lease liabilities	*14(c)*	**889**	578
Impairment of trade receivables and contract assets, net*	*20*	**4,848**	(1,375)
Impairment of financial assets included in prepayments, deposits and other receivables, net*	*21*	**70**	745
Foreign exchange differences, net*		**(24,988)**	2,639
Fair value losses/(gains) on foreign currency forward contracts, net*		**(7,443)**	11,531
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**89,783**	68,060
Share-based payment expense	*29*	**813**	1,362
Pension scheme contributions**		**16,210**	13,167
		106,806	82,589

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

** *At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: Nil).*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Note	**2022 RMB'000**	2021 RMB'000
Interest on bank loans		**7,283**	9,932
Interest on lease liabilities	*14(b)*	**365**	406
		7,648	10,338

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2022 **RMB'000**	2021 RMB'000
Fees	**720**	860
Other emoluments:		
Salaries, allowances and benefits in kind	**7,536**	7,533
Pension scheme contributions	**221**	199
	7,757	7,732
	8,477	8,592

(a) Independent non-executive directors

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

	2022 **RMB'000**	2021 RMB'000
Mr. Chen Shimin	**154**	152
Mr. Zhang Xuejun	**154**	152
Mr. Leung Ming Shu	**154**	152
Mr. Zhao Hang*	**–**	152
	462	608

* *Mr. Zhao Hang resigned as an independent and non-executive director of the Company on 1 January 2022.*

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

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

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021					
Executive directors:					
Mr. Xiang Jie	84	1,065	2,331	15	3,495
Mr. Gong Renyuan*	84	1,400	1,498	99	3,081
Mr. Yue Zhoumin	84	840	399	85	1,408
	252	3,305	4,228	199	7,984
Non-executive directors:					
Ms. Gao Lei**	–	–	–	–	–
Mr. Zhu Ming**	–	–	–	–	–
Ms. Zhang Ling	–	–	–	–	–
	–	–	–	–	–
	252	3,305	4,228	199	7,984

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

** *Ms. Gao Lei and Mr. Zhu Ming resigned as non-executive directors of the Company on 1 November 2021.*

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2021: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors which included the chief executive (2021: two directors which included the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**5,599**	5,752
Share-based payment expense	**93**	156
Pension scheme contributions	**1,127**	1,105
	6,819	7,013

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

	Number of employees	
	2022	2021
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	1
	3	3

In prior years, share options were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax ("**CIT**") at a rate of 25% (2021: 25%). Certain subsidiaries of the Group are qualified as high technology enterprises and hence are granted a preferential CIT rate of 15% (2021: 15%). Tax holidays were also granted by a relevant authority to a subsidiary of the Group, where CIT is exempted for the first two profitable years of the subsidiary and is chargeable at half of the applicable rate for the subsequent three years. The Group's subsidiaries established in Switzerland and Germany are subject to local corporate taxes of approximately 18% (2021: approximately 18%) and 32% (2021: approximately 32%), respectively.

	2022 RMB'000	2021 RMB'000
Current – Hong Kong		
Charge for the year	**–**	1,876
Current – Elsewhere		
Charge for the year	**13,852**	13,806
Underprovision/(overprovision) in prior years	**72**	(612)
Deferred (note 27)	**1,935**	3,002
Total tax charge for the year	**15,859**	18,072

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

2022

	Hong Kong		Europe		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(10,301)		(20,680)		69,867		38,886	
Tax at the statutory tax rate	(1,700)	16.5	(4,075)	19.7	17,467	25.0	11,692	30.1
Lower tax rates for specific provinces or enacted by local authority	(148)	1.4	–	–	(10,853)	(15.5)	(11,001)	(28.3)
Loss attributable to a joint venture	–	–	–	–	961	1.4	961	2.5
Loss attributable to an associate	–	–	–	–	2	–	2	–
Income not subject to tax	(860)	8.4	–	–	–	–	(860)	(2.2)
Expenses not deductible for tax	2,072	(20.1)	21	(0.1)	8,444	12.1	10,537	27.1
Additional deductible allowance for research and development expenses	–	–	–	–	(13,593)	(19.5)	(13,593)	(35.0)
Tax losses utilised from previous periods	–	–	(163)	0.8	(1,323)	(1.9)	(1,486)	(3.8)
Tax losses not recognised	636	(6.2)	3,776	(18.3)	15,123	21.6	19,535	50.2
Adjustments in respect of current tax of previous periods	–	–	–	–	72	0.1	72	0.2
Tax charge/(credit) at the Group's effective rate	–	–	(441)	2.1	16,300	23.3	15,859	40.8

10. INCOME TAX *(continued)*

2021

	Hong Kong		Europe		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	5,342		(18,414)		49,695		36,623	
Tax at the statutory tax rate	881	16.5	(3,832)	20.8	12,424	25.0	9,473	25.9
Lower tax rates for specific provinces or enacted by local authority	(135)	(2.5)	–	–	(11,267)	(22.7)	(11,402)	(31.1)
Loss attributable to a joint venture	–	–	–	–	559	1.1	559	1.5
Loss attributable to an associate	–	–	–	–	12	–	12	–
Income not subject to tax	(7)	(0.1)	–	–	–	–	(7)	–
Expenses not deductible for tax	1,137	21.2	18	(0.1)	14,553	29.3	15,708	42.8
Additional deductible allowance for research and development expenses	–	–	–	–	(13,162)	(26.5)	(13,162)	(35.9)
Tax losses utilised from previous periods	–	–	–	–	(1,811)	(3.6)	(1,811)	(4.9)
Tax losses not recognised	–	–	3,371	(18.3)	15,943	32.1	19,314	52.7
Adjustments in respect of current tax of previous periods	–	–	–	–	(612)	(1.2)	(612)	(1.7)
Tax charge/(credit) at the Group's effective rate	1,876	35.1	(443)	2.4	16,639	33.5	18,072	49.3

There was no share of tax attributable to an associate for the year ended 31 December 2022 (2021: Nil).

11. DIVIDENDS

No dividends have been declared by the Company during the year ended 31 December 2022 (2021: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB23,986,000 (2021: RMB15,459,000), and the weighted average number of ordinary shares of 1,635,080,505 (2021: 1,635,098,730) in issue during the year.

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

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

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**23,986**	15,459

	Number of shares 2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,635,080,505**	1,635,098,730
Effect of dilution – weighted average number of ordinary shares:		
Share options	**5,072,604**	9,683,842
	1,640,153,109	1,644,782,572

13. PROPERTY, PLANT AND EQUIPMENT

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

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021							
Cost	277,043	4,188	127,454	32,993	13,347	61,514	516,539
Accumulated depreciation and impairment	(44,515)	(1,312)	(71,413)	(23,395)	(9,372)	–	(150,007)
Net carrying amount	232,528	2,876	56,041	9,598	3,975	61,514	366,532
At 1 January 2021, net of accumulated depreciation and impairment	232,528	2,876	56,041	9,598	3,975	61,514	366,532
Additions	22,449	–	1,459	7,768	1,241	144,093	177,010
Disposals	–	(36)	(96)	(83)	(349)	–	(564)
Depreciation provided during the year	(9,996)	(542)	(9,160)	(4,664)	(1,378)	–	(25,740)
Transfers	89,093	–	96,300	3,627	240	(189,260)	–
Exchange realignment	–	(163)	–	(274)	(19)	–	(456)
At 31 December 2021, net of accumulated depreciation and impairment	334,074	2,135	144,544	15,972	3,710	16,347	516,782
At 31 December 2021:							
Cost	388,505	3,956	224,557	43,728	12,732	16,347	689,825
Accumulated depreciation and impairment	(54,431)	(1,821)	(80,013)	(27,756)	(9,022)	–	(173,043)
Net carrying amount	334,074	2,135	144,544	15,972	3,710	16,347	516,782

At 31 December 2022, two of the Group's buildings with an aggregate carrying amount of RMB7,655,000 (2021: RMB8,053,000) did not have building ownership certificates registered under the name of a subsidiary of the Group. The directors of the Company are of the view that the Group is entitled lawfully and validly occupy and/or use the buildings for its daily operations, notwithstanding the fact that the related building ownership certificates have not yet been obtained.

At 31 December 2022, certain of the Group's buildings, plant and machinery with net carrying amounts of approximately RMB163,463,000 (2021: RMB84,292,000) were pledged to secure general banking facilities granted to the Group (note 26). Certain of the Group's buildings with net carrying amounts of approximately RMB37,079,000 (2021: RMB38,599,000) were pledged to secure banking credit line granted to the Group.

14. LEASES

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

(a) Right-of-use assets

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

	Leasehold land RMB'000	**Buildings** RMB'000	**Total** RMB'000
As at 1 January 2021	45,689	14,825	60,514
Additions	–	976	976
Depreciation charge	(1,157)	(2,749)	(3,906)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(617)	(617)
As at 31 December 2021 and 1 January 2022	44,532	12,435	56,967
Additions	5,490	919	6,409
Depreciation charge	(1,202)	(2,776)	(3,978)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(37)	(37)
As at 31 December 2022	48,820	10,541	59,361

At 31 December 2022, certain of the Group's land use rights with net carrying amounts of approximately RMB16,698,000 (2021: RMB17,054,000) were pledged to secure general banking facilities granted to the Group (note 26). Certain of the Group's land use rights with net carrying amounts of approximately RMB11,474,000 (2021: RMB11,795,000) were pledged to secure banking credit line granted to the Group.

14. LEASES *(continued)*

(b) Lease liabilities

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

	Note	**2022** **RMB'000**	2021 RMB'000
Carrying amount at 1 January		**12,862**	15,146
New leases		**919**	976
Accretion of interest recognised during the year	7	**365**	406
Payments		**(3,065)**	(3,062)
Revision of a lease term arising from a change in the non-cancellable period of a lease		**(37)**	(604)
Carrying amount at 31 December		**11,044**	12,862
Analysed into:			
Current portion			
– repayable within one year		**2,795**	2,143
Non-current portion			
– repayable in the second year		**2,515**	2,230
– repayable in the third to fifth years, inclusive		**4,346**	5,169
– repayable beyond five years		**1,388**	3,320
		8,249	10,719
		11,044	12,862

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

	2022 **RMB'000**	2021 RMB'000
Interest on lease liabilities	**365**	406
Depreciation charge of right-of-use assets	**3,978**	3,906
Expense relating to short-term leases (included in administrative expenses)	**889**	578
Total amount recognised in profit or loss	**5,232**	4,890

(d) The total cash outflow for leases is disclosed in note 31(b) to the financial statements.

15. GOODWILL

	2022 RMB'000	2021 RMB'000
At 1 January and 31 December:		
Cost	**8,392**	8,392
Accumulated impairment	**(1,514)**	(1,514)
Net carrying amount	**6,878**	6,878

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

	Astrol		morEnergy		Total	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Cross amount	**6,878**	6,878	**1,514**	1,514	**8,392**	8,392
Less: accumulated impairment	**–**	–	**1,514**	1,514	**1,514**	1,514
Net carrying amount	**6,878**	6,878	**–**	–	**6,878**	6,878

Impairment testing of goodwill

Astrol cash-generating unit

The recoverable amount of Astrol cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18% (2021: 16.5%). The growth rate used to extrapolate the cash flows of Astrol cash-generating unit beyond the five-year period is 3% (2021: 3%).

Assumptions were used in the value in use calculation of Astrol cash-generating unit for 31 December 2022 and 31 December 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

16. OTHER INTANGIBLE ASSETS

	Technology know-how RMB'000	Customer relationship RMB'000	Patents RMB'000	Deferred development costs RMB'000	Computer software RMB'000	Total RMB'000
31 December 2022						
At 31 December 2021 and at 1 January 2022:						
Cost	**7,968**	**7,542**	**14,299**	**44,702**	**9,868**	**84,379**
Accumulated amortisation and impairment	**(4,383)**	**(4,148)**	**(6,605)**	**(3,777)**	**(3,254)**	**(22,167)**
Net carrying amount	**3,585**	**3,394**	**7,694**	**40,925**	**6,614**	**62,212**
Cost at 1 January 2022, net of accumulated amortisation	**3,585**	**3,394**	**7,694**	**40,925**	**6,614**	**62,212**
Additions – internal development	**–**	**–**	**–**	**9,298**	**–**	**9,298**
Additions – external purchases	**–**	**–**	**–**	**–**	**5,929**	**5,929**
Amortisation provided during the year	**(861)**	**(815)**	**(774)**	**(4,628)**	**(1,075)**	**(8,153)**
Exchange realignment	**291**	**275**	**274**	**1,428**	**6**	**2,274**
Cost at 31 December 2022, net of accumulated amortisation	**3,015**	**2,854**	**7,194**	**47,023**	**11,474**	**71,560**
At 31 December 2022:						
Cost	**8,614**	**8,153**	**14,810**	**55,507**	**16,070**	**103,154**
Accumulated amortisation and impairment	**(5,599)**	**(5,299)**	**(7,616)**	**(8,484)**	**(4,596)**	**(31,594)**
Net carrying amount	**3,015**	**2,854**	**7,194**	**47,023**	**11,474**	**71,560**

	Technology know-how RMB'000	Customer relationship RMB'000	Patents RMB'000	Deferred development costs RMB'000	Computer software RMB'000	Total RMB'000
31 December 2021						
At 31 December 2020 and at 1 January 2021:						
Cost	8,451	7,999	15,013	28,212	5,590	65,265
Accumulated amortisation and impairment	(3,803)	(3,599)	(5,902)	(1,430)	(2,874)	(17,608)
Net carrying amount	4,648	4,400	9,111	26,782	2,716	47,657
Cost at 1 January 2021, net of accumulated amortisation	4,648	4,400	9,111	26,782	2,716	47,657
Additions – internal development	–	–	–	16,600	–	16,600
Additions – external purchases	–	–	–	–	4,554	4,554
Amortisation provided during the year	(797)	(754)	(771)	(2,289)	(630)	(5,241)
Exchange realignment	(266)	(252)	(646)	(168)	(26)	(1,358)
Cost at 31 December 2021, net of accumulated amortisation	3,585	3,394	7,694	40,925	6,614	62,212
At 31 December 2021:						
Cost	7,968	7,542	14,299	44,702	9,868	84,379
Accumulated amortisation and impairment	(4,383)	(4,148)	(6,605)	(3,777)	(3,254)	(22,167)
Net carrying amount	3,585	3,394	7,694	40,925	6,614	62,212

17. INVESTMENT IN A JOINT VENTURE/INVESTMENT IN AN ASSOCIATE

Investment in a joint venture

	2022 RMB'000	2021 RMB'000
Share of net assets	9,146	12,988
Loans to a joint venture	700	700
	9,846	13,688

The loans to the joint venture are unsecured, interest-free and repayable on demand. In the opinion of the directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's investment in the joint venture. There was no recent history of default and past due amounts for loans to a joint venture. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

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

	2022 RMB'000	2021 RMB'000
Share of the joint venture' loss and total comprehensive loss	(3,842)	(2,235)
Aggregate carrying amount of the Group's investment in the joint venture	9,846	13,688

Investment in an associate

	2022 RMB'000	2021 RMB'000
Share of net assets	1,139	1,147

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

	2022 RMB'000	2021 RMB'000
Share of the associate's loss and total comprehensive loss	(8)	(47)
Aggregate carrying amount of the Group's investment in the associate	1,139	1,147

18. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

19. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**108,506**	152,476
Work in progress	**23,413**	27,181
Finished goods	**31,195**	26,800
	163,114	206,457

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS

	2022 RMB'000	2021 RMB'000
Trade receivables	**654,024**	491,809
Impairment	**(11,822)**	(6,874)
	642,202	484,935
Bills receivable	**156,041**	144,410
	798,243	629,345

	31 December 2022 RMB'000	31 December 2021 RMB'000	1 January 2021 RMB'000
Contract assets arising from sale of power electronic components	**52,859**	115,697	187,224
Impairment	**(192)**	(360)	(870)
	52,667	115,337	186,354
Analysed into:			
Current portion	**6,938**	64,387	95,960
Non-current portion	**45,729**	50,950	90,394
	52,667	115,337	186,354

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

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS *(continued)*

For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including normal operation of the product within warranty period as stipulated in the respective sales contracts. Contract assets are recognised for revenue earned from the sale of products as the receipt of consideration is conditional on the successful expiry of warranty period. Upon the expiry of the warranty period, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2022 and 2021 are the result of the receipt of sales contract amounts and expiration of quality guarantee deposits.

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

	2022 **RMB'000**	2021 RMB'000
Within one year	**6,938**	64,387
More than one year	**45,729**	50,950
Total contract assets	**52,667**	115,337

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

	2022 **RMB'000**	2021 RMB'000
Within 3 months	**352,042**	319,852
3 to 6 months	**122,030**	83,422
6 to 12 months	**97,509**	58,592
Over 1 year	**70,621**	23,069
	642,202	484,935

At 31 December 2022, the Group's bills receivable would mature within twelve (2021: twelve) months.

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

	2022 **RMB'000**	2021 RMB'000
At beginning of year	**6,874**	10,112
Impairment losses, net (note 6)	**5,016**	(865)
Amount written off as uncollectible	**(68)**	(2,373)
At end of year	**11,822**	6,874

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS *(continued)*

The increase in the loss allowance in 2022 was mainly due to the increase in sales contract amounts. The decrease in the loss allowance in 2021 was mainly due to the write-off of long-aged irrecoverable trade receivables.

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

	2022 RMB'000	2021 RMB'000
At beginning of year	**360**	870
Impairment losses, net (note 6)	**(168)**	(510)
At end of year	**192**	360

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

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

31 December 2022

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

31 December 2021

		Past due				
RMB'000	Within credit period	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Gross carrying amount	362,198	226,143	13,167	2,541	3,457	607,506
Amount from Tier 1 customers	–	36,120	–	–	–	36,120
Carrying amount without Tier 1 customers	362,198	190,023	13,167	2,541	3,457	571,386
Expected credit loss rate (%)	0.30	0.30	8.94	37.39	100.00	1.27
Expected credit losses	1,083	567	1,177	950	3,457	7,234

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS *(continued)*

At 31 December 2022, certain bills receivable of the Group with an aggregate carrying amount of RMB48,733,000 (2021: RMB23,174,000) were pledged to secure certain of the Group's bills payable (note 23).

At 31 December 2022, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Endorsed Bills**") with a carrying amount of RMB17,750,000 (2021: RMB11,369,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "**Endorsement**"). In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

At 31 December 2022, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognised Bills**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB59,467,000 (2021: RMB50,231,000). The Derecognised Bills had a maturity of one to eleven months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 **RMB'000**	2021 RMB'000
Prepayments	**7,387**	17,641
Deposits and other receivables	**31,451**	46,436
	38,838	64,077
Impairment	**(2,802)**	(2,732)
	36,036	61,345

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

	2022 **RMB'000**	2021 RMB'000
At 1 January	**2,732**	1,987
Impairment losses, net (note 6)	**70**	745
At 31 December	**2,802**	2,732

The increase in the loss allowance in 2022 was mainly due to the increase in overdue amounts of prepayments, deposits and other receivables with an aggregate gross carrying amount of RMB70,000 (2021: RMB745,000) and corresponding loss allowance of RMB70,000 (2021: RMB745,000).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Included in the Group's other receivables is loans due from a joint venture and the corresponding interest receivable with an aggregate amount of RMB11,268,000 (2021: RMB10,455,000), details of the loans are included in note 34 to the consolidated financial statements.

Generally, the Group measures the loss allowance equal to 12-month ECL of prepayments, deposits and other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group applies lifetime ECL based on the ageing for classes with different credit risk characteristics and exposures. Except for prepayments, deposits and other receivables amounting to RMB2,802,000 (2021: RMB2,732,000) included in the above balances, the above assets are neither past due nor impaired. Other than the aforementioned impaired prepayments, deposits and other receivables, the financial assets included in the above balances related to prepayments, deposits and other receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022 **RMB'000**	2021 RMB'000
Cash and bank balances	**629,552**	599,723
Less: Bank deposits pledged for:		
Letters of credit	**–**	(1,636)
Purchases of inventories	**(10,248)**	(10,253)
Bills payable	**(536)**	(658)
	(10,784)	(12,547)
Cash and cash equivalents	**618,768**	587,176

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB429,047,000 (2021: RMB485,757,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

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

	2022 RMB'000	2021 RMB'000
Within six months	**203,910**	153,853
Over six months	**46,927**	28,239
	250,837	182,092

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

At 31 December 2022, certain of the Group's bills payable are secured by the pledge of the Group's bank deposits amounting to RMB536,000 (2021: RMB658,000) (note 22) and the Group's bills receivable amounting to RMB48,733,000 (2021: RMB23,174,000) (note 20), respectively.

24. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES

	Notes	**2022 RMB'000**	2021 RMB'000
Other payables and accruals	*(a)*	**75,931**	72,231
Deferred income		**3,932**	3,615
		79,863	75,846
Contract liabilities	*(b)*	**13,769**	16,758
		93,632	92,604

Notes:

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

(b) Contract liabilities include short-term advances received to deliver power electronic components. The decrease in contract liabilities in 2022 from RMB16,758,000 to RMB13,769,000, and in 2021 from RMB19,284,000 to RMB16,758,000, was mainly due to the decrease in short-term advances received from customers in relation to sales of power electronic components at the end of the respective years.

25. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has entered into various forward foreign currency contracts to manage its exchange rate exposures. These forward foreign currency contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Net fair value gain on these derivatives amounting to RMB7,443,000 (2021: loss of RMB11,531,000) was credited to other income and gains during the year.

26. INTEREST-BEARING BANK BORROWINGS

	2022			2021		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured*	**HIBOR+1.5%**	**2023**	**–**	HIBOR+1.5%	2022	4,088
Bank loans – unsecured*	**LPR**			LPR		
	+0.9000%	**2023**	**9,990**	-0.5000%	2022	100,000
	+0.7000%	**2023**	**1,000**			
	-0.1500%	**2023**	**15,000**			
	-0.1000%	**2023**	**15,000**			
Bank loans – secured*#1	**LPR -0.1000%**	**2023**	**5,000**			
			45,990			104,088
Non-current						
Bank loans – secured*#2	**LPR+ 0.7500%**	**2025**	**100,000**	LPR+ 0.7500%	2025	100,000
			145,990			204,088
Analysed into:						
Bank loans repayable:						
Within one year or on demand			**45,990**			104,088
In the second to fifth years, inclusive			**100,000**			100,000
			145,990			204,088

* *The balances represent loans with floating interest rates.*

#1 *These bank loans are secured by certain of the Group's land use rights and buildings with net carrying amounts at 31 December 2022 of approximately RMB11,474,000 and RMB37,079,000 (2021: RMB11,795,000 and RMB38,599,000), respectively.*

#2 *These bank loans are secured by certain of the Group's land use rights and buildings, plant and machinery with net carrying amounts at 31 December 2022 of approximately RMB16,698,000 and RMB163,463,000 (2021: RMB17,054,000 and RMB84,292,000), respectively.*

Notes:

At the end of the reporting period, the Group's interest-bearing bank borrowings were denominated in the following currencies:

	2022 RMB'000	2021 RMB'000
Renminbi	**145,990**	200,000
Hong Kong dollars	**–**	4,088
	145,990	204,088

27. DEFERRED TAX

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

	Government grants RMB'000	Provisions RMB'000	Fair value adjustments of financial investments at fair value through other comprehensive income RMB'000	Fair value adjustments arising from acquisitions of subsidiaries RMB'000	Losses available for offsetting against future taxable profits RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	458	3,444	–	(3,347)	3,618	1,947	6,120
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(65)	(366)	–	445	(1,990)	(1,026)	(3,002)
Exchange differences	–	–	–	249	–	–	249
Deferred tax assets/(liabilities) at 31 December 2021 and 1 January 2022	393	3,078	–	(2,653)	1,628	921	3,367
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(393)	485	–	441	(1,045)	(1,423)	(1,935)
Deferred tax charged to other comprehensive income	–	–	(524)	–	–	–	(524)
Exchange differences	–	–	–	(127)	–	–	(127)
Deferred tax assets/(liabilities) at 31 December 2022	–	3,563	(524)	(2,339)	583	(502)	781

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

	2022 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**3,120**	6,020
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(2,339)**	(2,653)
	781	3,367

27. DEFERRED TAX *(continued)*

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

	2022 RMB'000	2021 RMB'000
Tax losses	**158,423**	135,117
Deductible temporary differences	**10,249**	8,396
	168,672	143,513

The Group has tax losses arising in Mainland China of RMB103,217,000 (2021: RMB102,248,000) that are available for offsetting against future taxable profits to a maximum period of five years of the companies in which the losses arose. The Group has tax losses arising in Hong Kong of RMB3,848,000 (2021: Nil) that are available for offsetting against future taxable profits to a maximum period of five years of the companies in which the losses arose. The Group has tax losses arising in Europe of RMB51,358,000 (2021: RMB32,869,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2022, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB79,336,000 (2021: RMB72,053,000).

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

28. SHARE CAPITAL

Shares

	2022 HK$'000	2021 HK$'000
Authorised:		
2,000,000,000 (2021: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000

	2022		2021	
	HK$'000	**RMB'000 equivalent**	HK$'000	RMB'000 equivalent
Issued and fully paid:				
1,630,328,000 (2021: 1,637,132,500) ordinary shares of HK$0.10 each	**163,033**	**139,768**	163,713	140,377

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

	Number of shares in issue	**Issued capital** RMB'000	**Share premium** RMB'000	**Total** RMB'000
At 1 January 2021	1,631,946,000	139,944	447,060	587,004
Share options exercised *(Note (a))*	5,186,500	433	6,346	6,779
Dividend	–	–	(40,931)	(40,931)
At 31 December 2021	1,637,132,500	140,377	412,475	552,852
At 31 December 2021 and 1 January 2022	1,637,132,500	140,377	412,475	552,852
Share options exercised *(Note (a))*	3,315,500	280	3,996	4,276
Shares repurchased and cancelled *(Note (b))*	(10,120,000)	(889)	(16,382)	(17,271)
At 31 December 2022	1,630,328,000	139,768	400,089	539,857

Notes:

(a) In 2022, the subscription rights attaching to 779,500 and 2,536,000 share options were exercised at the subscription prices of HK$1.17 and HK$1.10 per share (note 29), respectively, resulting in the issue of 3,315,500 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$3,702,000 (equivalent to approximately RMB3,128,000). An amount of RMB1,148,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

In 2021, the subscription rights attaching to 2,490,500 and 2,696,000 share options were exercised at the subscription prices of HK$1.17 and HK$1.10 per share (note 29), respectively, resulting in the issue of 5,186,500 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$5,879,000 (equivalent to approximately RMB4,910,000). An amount of RMB1,869,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

(b) The Company purchased 10,120,000 of its shares on the Stock Exchange at a total consideration of RMB17,271,000 which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. The purchased shares were cancelled during the year and the total amount paid for the purchase of the shares of RMB17,271,000 has been charged to retained profits of the Company.

29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**") for providing incentives and rewards to directors, eligible employees of the Group and consultants of the Group. The Share Option Scheme became effective on 23 September 2010 and, unless otherwise cancelled or amended, was to remain in force for 10 years from that date. In 2020, the Group replaced the Share Option Scheme with a new share option scheme (the "**New Scheme**") for providing incentives and rewards to directors, eligible employees of the Group and suppliers, customers and consultants of the Group, which was approved in the Group's annual general meeting held on 21 May 2020. Unless otherwise cancelled or amended, the New Scheme will remain in force for 10 years from 3 June 2020.

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

Under both the Share Option Scheme and the New Scheme, share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million, based on the closing price of the Company's shares at the date of offer, must be approved in advance by the Company's shareholders.

Under both the Share Option Scheme and the New Scheme, the offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period and ends on the date on which the options lapse or the date on which the scheme expires, if earlier. The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

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

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

	2022		2021	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.10**	**12,333**	1.11	18,470
Exercised during the year	**1.12**	**(3,315)**	1.13	(5,187)
Forfeited during the year	**1.10**	**(800)**	1.10	(950)
At 31 December	**1.10**	**8,218**	1.10	12,333

The weighted average share price at the date of exercise for share options exercised during the year was RMB2.58 per share (2021: RMB2.42).

29. SHARE OPTION SCHEME *(continued)*

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

2022

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

2021

Number of options '000	Exercise price* HK$ per share	Exercise period (dd-mm-yyyy)
11,554	1.10	01-04-2021 to 31-03-2026
779	1.17	24-08-2017 to 23-08-2022
12,333		

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

The fair values of each of the share options granted during the year ended 31 December 2020 were HK$0.40 for executives and HK$0.36 for non-executives, of which the Group recognised a share option expense of RMB813,000 for the year ended 31 December 2022 (2021: RMB1,362,000).

The fair values of each of the share options granted during the year ended 31 December 2016 were HK$0.54 for executives and HK$0.51 for non-executives, of which the Group recognised no share option expense for the year ended 31 December 2022 (2021: Nil).

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

	2020	**2016**
Dividend yield (%)	2.3	0.85
Expected volatility (%)	52	58
Historical volatility (%)	52	54
Risk-free interest rate (%)	0.67	0.69

29. SHARE OPTION SCHEME *(continued)*

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

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

The 3,315,500 share options exercised during the year resulted in the issue of 3,315,500 ordinary shares of the Company and new share capital of approximately HK$3,702,000 (equivalent to approximately RMB3,128,000) as further detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 8,218,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 8,218,000 additional ordinary shares of the Company and additional share capital of HK$822,000 (equivalent to approximately RMB734,000) and share premium of HK$8,218,000 (equivalent to approximately RMB7,341,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 8,218,000 shares options outstanding under the Scheme, which represented approximately 0.50% of the Company's shares in issue as at that date.

30. RESERVES

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

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

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB919,000 (2021: RMB976,000) and RMB919,000 (2021: RMB976,000), respectively, in respect of lease arrangements for buildings.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(b) Changes in liabilities arising from financing activities

2022

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

2021

	Bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2021	383,902	15,146
Changes from financing cash flows	(179,814)	(2,656)
New leases	–	976
Interest expense	–	406
Interest paid classified operating cash flows	–	(406)
Revision of a lease term arising from a change in the non-cancellable period of a lease	–	(604)
At 31 December 2021	204,088	12,862

(c) Total cash outflow for leases

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

	2022 RMB'000	2021 RMB'000
Within operating activities	**1,254**	984
Within financing activities	**2,700**	2,656
	3,954	3,640

32. CONTINGENT LIABILITIES

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

33. COMMITMENTS

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

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Buildings	**15,505**	21,623
Plant and machinery	**84,548**	25,778
	100,053	47,401

Other commitments

Commitments under foreign currency forward contracts:

	2022 RMB'000	2021 RMB'000
Purchase of Swiss franc	**76,994**	–

34 RELATED PARTY TRANSACTIONS

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

	2022 RMB'000	2021 RMB'000
Short term employee benefits	**22,306**	22,403
Post-employment benefits	**2,448**	2,257
Equity-settled share option expense	**295**	425
Total compensation paid to key management personnel	**25,049**	25,085

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

(b) Outstanding balances with related parties:

On 26 May 2020, 4 December 2020, 3 December 2021 and 16 August 2022, Jiashan Sunking Power Equipment Technology Co., Ltd. ("**Jiashan Sunking**") and Beijing Yaoting Tengyi Investment Partnership (Limited Partnership) ("**Yaoting**"), a joint venture of the Group, entered into loan agreements pursuant to which Jiashan Sunking agreed to advance loans of RMB4,500,000, RMB4,920,000, RMB20,000 and RMB10,000 to Yaoting. The loans were unsecured, interest-bearing at a rate of 8.3% per annum and repayable within one year. On 25 May and 3 December 2021, Jiashan Sunking and Yaoting reached supplemental agreements to extend the aforementioned loans of RMB4,500,000 and RMB4,920,000 to 31 December and 3 December 2022, respectively. On 3 December 2022, Jiashan Sunking and Yaoting reached another supplemental agreement to extend the aforementioned loans to 31 December 2023. The corresponding interest income during the year was RMB783,000 (2021: RMB782,000). Further details are included in note 21 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2022

Financial assets

	Financial assets at fair value through other comprehensive income – debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	642,202	642,202
Bills receivable	156,041	–	156,041
Financial assets included in prepayments, deposits and other receivables	–	19,526	19,526
Financial investments at fair value through other comprehensive income	101,755	–	101,755
Derivative financial instruments	7,443	–	7,443
Pledged deposits	–	10,784	10,784
Cash and cash equivalents	–	618,768	618,768
	265,239	1,291,280	1,556,519

Financial liabilities

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

35. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2021

Financial assets

	Financial assets at fair value through other comprehensive income – debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	484,935	484,935
Bills receivable	144,410	–	144,410
Financial assets included in prepayments, deposits and other receivables	–	23,739	23,739
Financial investments at fair value through other comprehensive income	98,261	–	98,261
Pledged deposits	–	12,547	12,547
Cash and cash equivalents	–	587,176	587,176
	242,671	1,108,397	1,351,068

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	182,092	182,092
Financial liabilities included in other payables and accruals	48,840	48,840
Lease liabilities	12,862	12,862
Interest-bearing bank borrowings	204,088	204,088
	447,882	447,882

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Bills receivable	**156,041**	144,410	**156,041**	144,410
Financial investments at fair value through other comprehensive income	**101,755**	98,261	**101,755**	98,261
Derivative financial instruments	**7,443**	–	**7,443**	–
	265,239	242,671	**265,239**	242,671
Financial liabilities				
Interest-bearing bank borrowings	**145,990**	204,088	**145,990**	203,994
	145,990	204,088	**145,990**	203,994

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

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

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

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

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, mainly including foreign currency forward contracts, are measured using quoted prices in active markets.

The Group also invests in financial investments, comprising certificates of deposits. The Group has estimated the fair value of these financial investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The carrying amounts of bills receivable, financial investments at fair value through other comprehensive income and derivative financial instruments are the same as their fair values.

The fair value of the non-current portion of interest-bearing bank borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2022 were assessed to be insignificant.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

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

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2)** RMB'000	**Significant unobservable inputs (Level 3)** RMB'000	**Total** RMB'000
As at 31 December 2022				
Bills receivable	**–**	**156,041**	**–**	**156,041**
Financial assets at fair value through other comprehensive income	**–**	**101,755**	**–**	**101,755**
Derivative financial instruments	**–**	**7,443**	**–**	**7,443**
	–	**265,239**	**–**	**265,239**
As at 31 December 2021				
Bills receivable	–	144,410	–	144,410
Financial assets at fair value through other comprehensive income	–	98,261	–	98,261
	–	242,671	–	242,671

Liabilities for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2)** RMB'000	**Significant unobservable inputs (Level 3)** RMB'000	**Total** RMB'000
As at 31 December 2022				
Interest-bearing bank borrowings	**–**	**145,990**	**–**	**145,990**
As at 31 December 2021				
Interest-bearing bank borrowings	**–**	**203,994**	**–**	**203,994**

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: Nil).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are disclosed in note 26 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax 2022 RMB'000**	Increase/ (decrease) in profit before tax 2021 RMB'000
RMB	**100**	**(1,234)**	(1,431)
RMB	**(100)**	**1,234**	1,431

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

Foreign currency risk

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

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

	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in profit before tax 2022**	Increase/ (decrease) in profit before tax 2021
	%	**RMB'000**	RMB'000
If RMB weakens against CHF	**5**	**6,685**	1,780
If RMB strengthens against CHF	**(5)**	**(6,685)**	(1,780)

Credit risk

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

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

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

As at 31 December 2022

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

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Bills receivable	144,410	–	–	–	144,410
Trade receivables*	–	–	–	491,809	491,809
Contract assets*	–	–	–	115,697	115,697
Financial assets included in prepayments, deposits and other receivables					
– Normal**	23,739	–	–	–	23,739
– Doubtful**	–	–	2,732	–	2,732
Financial investments at fair value through other comprehensive income	98,261	–	–	–	98,261
Pledged deposits					
– Not yet past due	12,547	–	–	–	12,547
Cash and cash equivalents					
– Not yet past due	587,176	–	–	–	587,176
	866,133	–	2,732	607,506	1,476,371

* *For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements, respectively.*

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

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

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2022			
	On demand or less than three months RMB'000	**Three to less than twelve months RMB'000**	**Over one year RMB'000**	**Total RMB'000**
Trade and bills payables	**225,171**	**25,666**	**–**	**250,837**
Financial liabilities included in other payables and accruals	**49,581**	**–**	**–**	**49,581**
Lease liabilities	**777**	**2,302**	**9,151**	**12,230**
Interest-bearing bank borrowings	**–**	**46,873**	**113,056**	**159,929**
	275,529	**74,841**	**122,207**	**472,577**

	2021			
	On demand or less than three months RMB'000	Three to less than twelve months RMB'000	Over one year RMB'000	Total RMB'000
Trade and bills payables	166,890	15,202	–	182,092
Financial liabilities included in other payables and accruals	48,840	–	–	48,840
Lease liabilities	616	1,853	11,018	13,487
Interest-bearing bank borrowings	4,456	101,360	117,720	223,536
	220,802	118,415	128,738	467,955

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

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

Capital management *(continued)*

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

	2022 **RMB'000**	2021 RMB'000
Interest-bearing bank borrowings (note 26)	**145,990**	204,088
Total equity	**1,913,948**	1,799,553
Gearing ratio	**7.6%**	11.3%

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 **RMB'000**	2021 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**518,537**	540,882
Total non-current assets	**518,537**	540,882
CURRENT ASSETS		
Deposits and other receivables	**1,249**	4,412
Due from a subsidiary	**63,924**	58,881
Cash and cash equivalents	**451**	2,488
Total current assets	**65,624**	65,781
CURRENT LIABILITIES		
Other payables and accruals	**420**	510
Total current liabilities	**420**	510
NET CURRENT ASSETS	**65,204**	65,271
Net assets	**583,741**	606,153
EQUITY		
Issued capital	**139,768**	140,377
Reserves (note)	**443,973**	465,776
Total equity	**583,741**	606,153

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

Note:

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

	Share premium account RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000	Other reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2021	447,060	9,472	3,443	6,294	42,519	6,878	515,666
Loss and total comprehensive loss for the year	–	–	–	–	–	(14,798)	(14,798)
Exercise of share options	6,346	(1,869)	–	–	–	–	4,477
Share-based payments	–	1,362	–	–	–	–	1,362
Transfer from employee share-based compensation reserve	–	(6,054)	–	–	–	6,054	–
Final and special 2021 dividends	(40,931)	–	–	–	–	–	(40,931)
At 31 December 2021 and 1 January 2022	**412,475**	**2,911**	**3,443**	**6,294**	**42,519**	**(1,866)**	**465,776**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(9,082)**	**(9,082)**
Exercise of share options	**3,996**	**(1,148)**	**–**	**–**	**–**	**–**	**2,848**
Share–based payments	**–**	**813**	**–**	**–**	**–**	**–**	**813**
Shares repurchased and cancelled	**(16,382)**	**–**	**889**	**–**	**–**	**(889)**	**(16,382)**
At 31 December 2022	**400,089**	**2,576**	**4,332**	**6,294**	**42,519**	**(11,837)**	**443,973**

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2023.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**917,780**	930,992	1,215,811	1,395,638	1,290,490
PROFIT BEFORE TAX	**38,886**	36,623	203,818	233,990	245,262
Income tax expense	**(15,859)**	(18,072)	(29,087)	(33,962)	(35,107)
PROFIT FOR THE YEAR	**23,027**	18,551	174,731	200,028	210,155
Attributable to:					
Owners of the parent	**23,986**	15,459	177,235	195,643	183,301
Non-controlling interests	**(959)**	3,092	(2,504)	4,385	26,854
	23,027	18,551	174,731	200,028	210,155

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**2,496,623**	2,377,141	2,519,062	2,566,331	2,489,143
TOTAL LIABILITIES	**(582,675)**	(577,588)	(745,227)	(877,828)	(819,945)
NON-CONTROLLING INTERESTS	**(82,929)**	(54,740)	(15,323)	(16,563)	(105,634)
	1,831,019	1,744,813	1,758,512	1,671,940	1,563,564